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S.C. SUPREME COURT

STATE OF SOUTH CAROLINA
In the Supreme Court

APPEAL FROM THE PUBLIC SERVICE COMMISSION

Appellate Case No. 2018-001107

Daufuskie Island Utility Company, Inc.,

Appellant,

v.

South Carolina Office of Regulatory Staff,
Haig Point Club and Community Association, Inc.,
Melrose Property Owner's Association, Inc.,
Bloody Point Property Owner's Association, and
Beach Field Properties, LLC,

Respondents.

RECORD ON APPEAL
VOLUME I of VII
(R. pp. 1 to 465)

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SOUTH CAROLINA PUBLIC SERVICE COMMISSION

STANDING HEARING OFFICER DIRECTIVE

DOCKET NOS. 2014-346-WS ORDER NO. 2015-57-H

AUGUST 28, 2015

Standing Hearing Officer: David Butler

DOCKET DESCRIPTION:
Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions

MATTER UNDER CONSIDERATION:
Request for extension of pre-filing dates for testimony and exhibits

STANDING HEARING OFFICER'S ACTION:
Counsel representing Haig Point, Melrose Property Owners and Bloody Point Property Owners requests extensions of time for the pre-filing of all testimony and exhibits in the case. The hearing date would remain unchanged for October 28, 2015. No party opposes the request. The requested extensions in pre-filing dates are as follows:

Daufuskie Island Utility Company, Incorporated Direct Testimony (and Exhibits) Due Date would be extended from September 1, 2015 to September 18, 2015;
Other Parties of Record and Office of Regulatory Staff Direct Testimony (and Exhibits) Due Date would be extended from September 18, 2015 to October 2, 2015;
Company's Rebuttal Testimony (and Exhibits) Due Date would be extended from September 25, 2015 to October 9, 2015;
Other Parties of Record and Office of Regulatory Staff Surrebuttal Testimony (and Exhibits) Due Date would be extended from October 2, 2015 to October 16, 2015.

The request is reasonable, since the hearing date will remain unchanged. The request is granted. Accordingly, the new pre-filing due dates are as follows:

Daufuskie Island Utility Company, Incorporated Direct Testimony (and Exhibits) Due Date: September 18, 2015;

Other Parties of Record and Office of Regulatory Staff Direct Testimony (and Exhibits) Due Date: October 2, 2015;

Company's Rebuttal Testimony (and Exhibits) Due Date: October 9, 2015;
Other Parties of Record and Office of Regulatory Staff Surrebuttal Testimony (and Exhibits) Due Date: October 16, 2015.

All revised pre-filed testimony deadlines listed herein are still subject to the other information as posted in the original June 19, 2015 pre-filing letter in this Docket.

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COMMISSION DIRECTIVE

ADMINISTRATIVE MATTER	☐	DATE	**August 12, 2015**
MOTOR CARRIER MATTER	☐	DOCKET NO.	**2014-346-WS**
UTILITIES MATTER	☑	ORDER NO.	**2015-584**

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2014-346-WS - Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions – Staff Presents for Commission Consideration the Petition to Intervene Filed on Behalf of Haig Point Club and Community Association, Incorporated, Melrose Property Owners Association, Incorporated, and Bloody Point Property Owners' Association.

COMMISSION ACTION:

Grant the Petition to Intervene in Docket No. 2014-346-WS filed by the Haig Point Club and Community Association, Inc.; Melrose Property Owners Association, Inc.; and Bloody Point Property Owners' Association.

PRESIDING: Hall SESSION: Regular TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
ELAM	☐	☑	☐		
FLEMING	☐	☑	☐		
HALL	☐	☑	☐		
HAMILTON	☑	☑	☐		
HOWARD	☐	☐	☐	Absent	Sick Leave
RANDALL	☐	☑	☐		
WHITFIELD	☐	☑	☐		

(SEAL)

RECORDED BY: J. Schmieding

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COMMISSION DIRECTIVE

ADMINISTRATIVE MATTER	☐	DATE	**August 12, 2015**
MOTOR CARRIER MATTER	☐	DOCKET NO.	**2014-346-WS**
UTILITIES MATTER	☑	ORDER NO.	**2015-586**

THIS DIRECTIVE SHALL SERVE AS THE COMMISSION'S ORDER ON THIS ISSUE.

SUBJECT:

DOCKET NO. 2014-346-WS - Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions – Staff Presents for Commission Consideration the Request for a Public Hearing in Beaufort County Filed on Behalf of Haig Point Club and Community Association, Melrose Property Owners Association, and Bloody Point Property Owners' Association.

COMMISSION ACTION:

Grant the request of the Haig Point Club and Community Association, Inc.; Melrose Property Owners Association, Inc.; and Bloody Point Property Owners' Association for a public hearing to be held on Daufuskie Island and direct Staff to schedule such public hearing.

PRESIDING: Hall SESSION: Regular TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER	
ELAM	☑	☑	☐		
FLEMING	☐	☑	☐		
HALL	☐	☑	☐		
HAMILTON	☐	☑	☐		
HOWARD	☐	☐	☐	Absent	Sick Leave
RANDALL	☐	☑	☐		
WHITFIELD	☐	☑	☐		

(SEAL)

RECORDED BY: J. Schmieding

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2015-846

DECEMBER 8, 2015

IN RE:	Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	) ORDER APPROVING) SETTLEMENT AMONG) CERTAIN PARTIES AND) RULING ON) APPLICATION FOR) ADJUSTMENTS IN) RATES

I. Introduction

This matter is before the Public Service Commission of South Carolina (the "Commission") on the Application ("Application") of Daufuskie Island Utility Company, Incorporated ("DIUC" or "the Company") filed on June 9, 2015, seeking approval of a new schedule of rates and charges for water and sewer service that DIUC provides to its customers within its authorized service area in South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A.

In the Application, DIUC requested an increase in revenues for combined operations of $1,182,301, consisting of a water revenue increase of $590,454 and a sewer revenue increase of $591,847. The revenue increase utilizes a return on equity ("ROE") of 10.5% based on the rate of return on rate base methodology and a 2014 historical test year. Tariff changes to bring the rates between the Haig Point and Melrose communities to uniformity were also requested.

DIUC's last rate case before this Commission was in Docket No. 2011-229-WS. In that case, Commission Order No. 2012-515 approved a Settlement entered into by the Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs"); and DIUC that was not objected to by the South Carolina Office of Regulatory Staff ("ORS"); whereby DIUC received a revenue increase of $291,485 based on a $5,000,000 rate base; an operating margin of 16.64%; and an ROE of 8.81%. DIUC also agreed not to seek another rate adjustment prior to July 1, 2014.

DIUC's South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class B water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending December 31, 2014. The Commission's approved service area for DIUC is on Daufuskie Island located in Beaufort County, South Carolina.

The Commission's Clerk's Office instructed DIUC to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by DIUC's Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. The Commission also instructed DIUC to notify each affected customer by mailing or, where the customer had previously agreed to electronic notice, by e-mailing each customer a copy of the Notice of Filing. DIUC filed Affidavits of Publication and

Mailing demonstrating that the Notice of Filing had been duly published and provided to all customers.

Petitions to Intervene were filed on behalf of the POAs on July 23, 2015, and Beach Field Properties, LLC ("Beach Field") on July 27, 2015.

Subsequent to their intervention, the POAs requested that the Commission schedule a public night hearing at a convenient time and location for customers of DIUC to present their comments regarding the service and rates of DIUC. In response, the Commission held a public night hearing pursuant to Order No. 2015-586. Under this Order, a public hearing was set and noticed by the Commission, and the Company provided an affidavit certifying that it had provided notice of the date, time and location of the local public hearing via publication in The Beaufort Gazette and The Island Packet. On September 15, 2015, the Commission held a night hearing beginning at 6:00 pm at the Haig Point Club Clubhouse, 130 Clubhouse Lane, Daufuskie Island, South Carolina.[1]

On October 28, 2015, the Commission, with Chairman Nikiya "Nikki" Hall presiding, heard the matter of DIUC's Application beginning at 10:30 am at the Commission Hearing Room located at 101 Executive Center Drive in Columbia, South Carolina.

DIUC was represented by G. Trenholm Walker, Esquire, and Thomas P. Gressette, Jr., Esquire. The POAs were represented by John J. Pringle, Jr., Esquire.

[1] Hearing Exhibit 1 consists of the night hearing sign-in sheets and Hearing Exhibit 2 consists of comments filed by public witness Andy Mason.

Beach Field was represented by Margaret M. Fox, Esquire. ORS was represented by Shannon Bowyer Hudson, Esquire, and Andrew M. Bateman, Esquire.

At the hearing on October 28, a Settlement[2] between the POAs and ORS was entered into the record after an objection to it by DIUC was overruled. DIUC, the POAs and ORS presented testimony and exhibits after one public witness, Mr. Reid Delaney,[3] testified. Mr. Delaney testified that he owns property on which assets are located and utilized by DIUC for its regulated water and sewer business.

DIUC presented the testimony of: John F. Guastella[4] (direct and rebuttal testimony), President of Guastella Associates, LLC ("GA"), a utility management, valuation and rate consulting firm headquartered in Boston, Massachusetts; Gary C. White (direct), Vice President and Director of Accounting at GA; Eric Johanson (direct), DIUC Chief Operator; and the Honorable Maria Walls[5] (rebuttal), Beaufort County Treasurer. Mr. Guastella and Mr. White testified as a panel about the management and finances of DIUC. Mr. Johanson's testimony addressed the operations of DIUC. Mr. Johanson was excused from the hearing without appearing before the Commission after

[2] The Settlement, denominated "Settlement Agreement," and containing five exhibits was entered into the record as Hearing Exhibit 3. Under the Commission Settlement Policy, a "settlement" is a document which fully or partially resolves a proceeding. In this case, the three Property Owners Associations and the Office of Regulatory Staff entered into an agreement which resolves issues among those parties. This agreement would be classified as a "settlement" under the Commission Settlement Policy, even though neither DIUC nor Beach Field Properties, LLC were parties to the agreement, and the document was originally referred to in the Motion approved at the Commission meeting as a "Stipulation." Pursuant to this reasoning, the document denominated as a "Settlement Agreement" by the settling parties will be referred to as the "Settlement" throughout the remainder of this Order.

[3] Hearing Exhibit 4 is a survey provided by Mr. Delaney.

[4] Hearing Exhibit 7 consists of Guastella Direct Exhibits A and B. Hearing Exhibit 8 consists of Guastella Rebuttal Exhibits 1 through 5. Hearing Exhibit 9 is the GA Management Agreement. Hearing Exhibit 10 consists of the ORS and POAs responses to DIUC's discovery requests.

[5] Hearing Exhibit 5 consists of Walls Rebuttal Exhibit A

his testimony was accepted into the record without objection from the other parties. Ms. Walls provided testimony on property taxes.

The POAs presented two panels of witnesses. The first panel consisted of Paul Vogel[6] (direct), Haig Point Club and Community Association resident; Doug Egly[7] (direct), Chief Operating Officer of the Haig Point Association; and Tony Simonelli (direct), real estate broker on Daufuskie Island. The second panel consisted of Lynn M. Lanier[8] (direct) and Charles Loy[9] (direct and surrebuttal), Principals of GDS Associates, Inc., a utility consulting and engineering firm with its principal offices in Marietta, Georgia; and Harry Jue[10] (direct), water and sewer consultant with Hussey Gay Bell Engineering. POA witnesses Vogel, Egly, and Simonelli presented testimony illustrating the points of view of their respective organizations, and each providing testimony opposing DIUC's request. POA witness Loy provided expert testimony regarding accounting and rate base issues. POA witness Lanier provided expert testimony on the overall Application and incorporated Mr. Loy's recommended adjustments. Beach Field did not pre-file or present testimony at the Commission hearing.

ORS presented the testimony of Douglas H. Carlisle[11] (direct), ORS Economist; Ivana C. Gearheart[12] (direct), ORS Audit Manager; and Willie J. Morgan[13] (direct and surrebuttal), ORS Deputy Director for the Water and Wastewater Department, in a panel.

[6] Hearing Exhibit 11 is Vogel Exhibit 1.
[7] Hearing Exhibit 12 is Egly Exhibit 1
[8] Hearing Exhibit 14 consists of Lanier Exhibits 1 through 5 Exhibit 3 was revised at the hearing.
[9] Hearing Exhibit 15 is Loy Surrebuttal Exhibit 1 Hearing Exhibit 16 is Loy Direct Appendix A.
[10] Hearing Exhibit 13 is Jue Exhibit 1
[11] Hearing Exhibit 17 is Carlisle Direct Exhibits 1 through 10
[12] Hearing Exhibit 18 is Gearheart Direct Exhibits 1 through 8.
[13] Hearing Exhibit 19 is Morgan Direct Exhibits 1 through 8 Hearing Exhibit 20 is Morgan Surrebuttal Exhibits 1 and 2.

Dr. Carlisle's testimony included an analysis and recommendation for an ROE. Ms. Gearheart's direct testimony described ORS's examination of the Application and DIUC's books and records as well as the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Morgan's direct testimony focused on DIUC's compliance with Commission rules and regulations, ORS's business office compliance review, inspections of DIUC's water and wastewater systems, test-year and proposed revenue, and performance bond requirements.

II. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

Standards and Required Findings

DIUC's Application was filed pursuant to S.C. Code Ann. Sections 58-5-210 and 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A. In considering the Application, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. Thus, the Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of DIUC to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for DIUC based on the record and any increase must be just and reasonable and free of undue discrimination. DIUC has also asked this Commission to establish revenues based on an authorized ROE which is established to allow DIUC the opportunity to earn a fair return.

After evaluation of the positions of the parties, the Commission reaches the legal and factual conclusions below based on its review of the facts and evidence of record.

The evidence supporting the Company's business and legal status is contained in the Application filed by DIUC, testimony, and in prior Commission orders in the docket files of the Commission, of which the Commission takes judicial notice.

Test Year

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's operating margin or, in this case, a return on rate base, and, consequently, the validity of the utility's requested rate increase. In order to determine what a utility's expenses and revenues are for purposes of determining the reasonableness of a rate, one must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data. *See Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); *see also, Parker v. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984), *citing City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 P.A. Super. 341, 144 A.2d 648 (1958).

In its Application, DIUC utilized a historic test year – the twelve months ending December 31, 2014, with adjustments for 2015 expectations. ORS also used the 2014 historical test year for two reasons: 1) because it was chosen by DIUC and 2) the underlying transactions in the 2014 books could be tested to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. (Gearhart Direct, R. p. 489). Consistent with generally accepted regulatory principles, ORS adjusted, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base. The POAs also utilized a 2014 historic test year with adjustments. (Loy Direct, R. p. 397).

Based on the information available to the Commission and the fact that all parties agreed to a calendar year 2014 test year, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 2014, is appropriate for the purposes of this rate request.

Rate of Return on Rate Base

DIUC requested that its rates be determined in accordance with the rate of return on rate base methodology. The determination of rate of return on rate base requires three components: 1) capital structure; 2) cost of debt; and 3) cost of equity (or return on equity). However, by statutory requirement, the Commission must specify an allowable operating margin in all water and wastewater orders. S.C. Code Ann. § 58-5-240(H). Although the Commission must specify an operating margin in its order, this does not mean that the operating margin methodology must be used in determining a fair rate of

return. *Heater of Seabrook* at p. 64 and 830. Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation." *Id.* No party contested the use of the rate of return on rate base methodology and given the size of DIUC's rate base the Commission finds the rate of return on rate base methodology appropriate in this case.

Capital Structure and Cost of Debt

With respect to the capital structure, DIUC recommended a pro forma capital structure of 41.2% debt and 58.8% equity. ORS witness Dr. Carlisle testified there are two concerns with the method DIUC used to calculate its capital structure: 1) DIUC included pro-forma long-term debt in its long-term debt calculation; and 2) DIUC proposed an inflated equity amount. (Carlisle Direct, R. p. 472). Dr. Carlisle noted that both result in an increase in the ROE. (Id.)

The pro forma debt is based on the cost of debt DIUC expects, and as Dr. Carlisle noted, the outcome of DIUC's negotiations with banks or lenders is unknown at this time; therefore, DIUC's pro forma debt should not be included. (Carlisle Direct, R. p. 473). The POAs also agreed that debt should not include future amounts. (Lanier Direct, R. p. 436, ll. 8-14). Dr. Carlisle further testified that DIUC's capital structure is weighted more heavily with equity, which is more expensive than debt. (Carlisle Direct, R. p. 473).

In contrast to a projected or pro forma capital structure, ORS recommended a hypothetical capital structure of 46% long-term debt and 54% equity calculated by

averaging the known capital structure used by water companies in the United States with publicly traded stock. (Id.) The POAs produced an adjusted capital structure of 57.55% debt and 42.45% equity (Hearing Exhibit 14, Amended Lanier Exhibit 3), based on a downward adjusted rate base, which is discussed later in this Order. In the Settlement, the POAs agreed to the capital structure proposed by the ORS.

As to the specific cost of debt rate, DIUC recommended 6.20%. The POAs testified that 6.20% is relatively high in the current interest rate environment, but is probably a reasonable rate given DIUC's precarious financial state. (Lanier Direct, R. p. 436). To calculate the 6.20% debt rate, DIUC included anticipated legal and GA fees in the financing fees. In support of the debt amount, Mr. Guastella testified the debt he used is based on his knowledge of prior financing costs applied to the costs expected to be incurred for future refinancing. (Guastella, R. p. 243). As a percentage of the total debt, the anticipated fees are 13.56% per ORS's calculations.

ORS did not incorporate the additional fees into the debt rate because the fees are a large percentage of the total debt and did not originate from a lending institution. ORS recommended that the actual debt rate being paid by DIUC to the current lending institution, 5.29%, be used. (Gearheart Direct, R. p. 497). In the Settlement, the POAs agreed to the 5.29% cost of debt recommended by the ORS.

Upon consideration of evidence, the Commission adopts the capital structure, 46% long-term debt and 54% equity, and debt rate, 5.29%, recommended by ORS since they are based on known data instead of expected events. The Commission declines to

use the POA's capital structure because it is based on adjustments to DIUC's rate base (discussed in the Rate Base section below) that this Commission declines to adopt

Cost of Equity/Return on Equity

DIUC witness Guastella testified that the requested 10.5% ROE is based on his experience and judgment. (Guastella Direct, R. p. 193). The POAs' witness Lanier testified, "This is the same rate the Company requested in its 2012 rate case[14], which was a specified rate, rather than a rate developed through justification of the ROE required to meet its needs for profit margin and to attract the needed debt capital." (Lanier Direct, R. p. 437, ll. 1-4).

In contrast to DIUC, ORS's Dr. Carlisle recommended an ROE of 9.31% based on a range of 8.91% to 9.71% using results from the Discounted Cash Flow model ("DCF"), Capital Asset Pricing Method ("CAPM") and the Comparable Earnings Model ("CEM"). (Carlisle Direct, R. pp. 471 and 474). Dr. Carlisle testified the DCF and CAPM are known and generally accepted methods for determining a recommended ROE. (Id.) The POAs testified that the DCF is the prevailing method used for determining appropriate ROEs. The POAs also testified that, while the DCF and CAPM are recognized as methods for calculating ROEs, the DCF and CAPM provide challenges since there are not many publicly traded companies similar to DIUC. (Lanier Direct R. p. 442).

For his analyses, Dr. Carlisle examined data on companies with publicly traded stock of which more data is available, because DIUC requested rates based on rate of

[14] The merits hearing for DIUC's last rate case in Docket No 2011-229-WS was held in 2012

return. (Carlisle Direct R. p. 475). Companies with publicly traded stock yield more data than what is available for privately held companies, according to Dr. Carlisle. (Id.) Specifically, Dr. Carlisle testified that he used publicly traded companies classified as "water utilities" by Value Line or *Yahoo! Finance* for his DCF and CAPM, since they are in the same line of business as DIUC and share similar risks. (Id.) For his CEM analysis, Dr. Carlisle used companies with comparable betas to those of the companies used in his DCF and CAPM group. (Id.)

DIUC did not provide analyses similar to those used by Dr. Carlisle; however, Schedule A-3 of DIUC's application shows the following references to ROE:

Connecticut DPUC Formula:

Average Large Company	9.69%
Small Company Adder	0.50%
Performance Adder	0.50%
	10.69%

Florida PSC Leverage Graph Formula:

5.6% + (2.279 / Equity Ratio)		= ROE
Range	100%	= 7.88%
	40%	=11.30%
Equity Ratio	58.8%	= 9.47%

There is no discussion of these components in Schedule A-3 or in testimony, with the exception of Mr. Guastella's rebuttal testimony containing the following single

sentence, "Under the Connecticut Public Utilities Regulatory Authority formula for return on equity for small companies, the rate of return on equity for DIUC is 10.69%." (Guastella Rebuttal, R. p. 221). ORS provided no testimony on either the Connecticut or Florida ROE formulas. The POAs could find no other reference to the Connecticut formula and challenged DIUC's portrayal of the Florida formula.

Witness Lanier for the POAs testified, "[S]imply including a formula on a schedule and a calculated number is not sufficient rationale to support a ROE, particularly of 10.5%, when the company is requesting a revenue increase of over 100% in order to achieve such return." (Lanier Direct, R. p. 439, ll. 7-9). The POAs acknowledged Dr. Carlisle as a source to support an appropriate ROE, and the POAs pre-filed direct testimony recommended an ROE in the range of 8.5% to 9.0% in consideration of a lower rate base and based on various examples of DIUC's "irresponsibility in its operations since the rate increase authorized in 2012 and in the use of debt funds, in view of the critical need for cash." (Lanier Direct, p. 441, ll. 2-3). The POAs did not provide their own analysis for an ROE using a commonly-accepted and widely-accepted methodology such as DCF or CAPM.

In summary, DIUC requested an ROE of 10.5%; ORS recommended an ROE of 9.31% based on a range of 8.91% to 9.71%; and the POAs recommended an ROE in the range of 8.5% to 9.0%.

Upon consideration of the testimony of the various witnesses, the Commission adopts the range set forth in evidence as produced by ORS. ORS used the well-known and commonly-accepted DCF method, CAPM, and CEM for developing its range of

8.91% to 9.71%. Those methods, as applied by ORS, are grounded in sound analysis. While the POAs also considered the well-known analyses and some different analyses for determination of the rate of return on equity, the POAs did not actually perform the DCF, CAPM, and CEM studies that ORS performed. Therefore, this Commission finds the ROE range proposed by the POAs and DIUC's ROE recommendation lacking in support and analysis. Also, in the Settlement, the POAs and the ORS agreed to an ROE that falls within the range of Dr. Carlisle and rounds to his recommended ROE of 9.3%.

Rate Base

The rate base proposed by DIUC for combined operations was $7,085,475. [15] In support of its rate base, DIUC included several plant assets, particularly a 125,000 gallon elevated water storage tank, well and facilities (the "facilities") which are located on real property not owned by DIUC. Specifically, the facilities are located on real property (the "Site") that, as described below, was sold at a delinquent tax sale. DIUC does not dispute that it is not the owner of the Site.[16] However, DIUC offered testimony and evidence that it owns these facilities, and asserts that 1) the tax sale did not include the storage tank, well and facilities, only the Site; 2) DIUC pays property taxes to Beaufort County for the facilities; 3) DIUC has the right to operate those facilities on any parcel of land in the

[15] See Application Schedule A-4; however the December 31, 2014 rate base total from Application Schedules W-B and S-B totals $6,914,024.
[16] A 10,000 gallon ground level storage tank is located on another piece of property and excluded from rate base by ORS for lack of proof of ownership. (Morgan Direct R. p. 511 and Hearing Exhibit 19 - Exhibit WJM-8)

Haig Point development[17]; and 4) these facilities are "used and useful" in providing water service. (Guastella Direct, R. p. 195, Walls Rebuttal, R. pp. 82-83). DIUC offered the testimony of the Beaufort County Treasurer Maria Walls who stated the Company is paying a utility tax on water system infrastructure. (Walls Rebuttal, R. p. 83).

Both ORS and the POAs excluded the facilities from rate base. ORS testified that DIUC did not provide enough information for ORS to determine whether or not DIUC is the owner of those facilities. (R. p. 502 and Morgan Surrebuttal, R. p. 517). ORS excluded the facilities from rate base in Docket No. 2011-229-WS. (Morgan Surrebuttal, R. p. 516 and Gearheart Direct, R. p. 496). In support of its position that DIUC had not supplied sufficient information to demonstrate ownership of the facilities, ORS entered into evidence a December 2011 Beaufort County government Tax Deed ("Tax Deed") conveying the Site in a delinquent tax sale. (Hearing Exhibit 19 – Exhibit WJM-7). The delinquent tax sale occurred as a result of DIUC's failure to pay taxes. The Tax Deed describes the property sold as the "Elevated Tank Site" and further states the "Elevated Tank Site's" "premises" and "appurtenances" are granted to Mamdouh Sabry Abdelrahman ("Mr. Sabry"). Mr. Sabry, the grantee, is not associated with DIUC. (R. p. 156).

With respect to the overall rate base, the POAs recommended that DIUC's rate base as proposed $7,085,475 be reduced by $3,745,530 as a result of 1) increased accumulated depreciation, 2) contributions in aid of construction ("CIAC") and 3) CIAC

[17] With respect to DIUC's access to the facilities on land it does not own, DIUC testified it has a perpetual easement to the facilities, however, no evidence was produced of a perpetual easement or any easement recorded after the sale of the property. (R. p. 156 and Hearing Exhibit 8)

amortization. (Loy Direct, Table 1, R. p. 371). Witness Mr. Loy for the POAs testified that Generally Accepted Accounting Principles ("GAAP") and appropriate regulatory accounting required that accumulated depreciation be calculated on a straight-line basis from the "in service" date through the end of the test year. (Loy Direct, R. p. 371). In addition, Mr. Loy testified that an adjustment increasing accumulated depreciation "reflects the proper age and condition of the utility property," (Loy Direct, R. p. 371).

POAs witness Mr. Jue echoed Mr. Loy's conclusion, opining that the DIUC system "would be expected to reflect accumulated depreciation of approximately 30%." (Jue Direct, R. p. 362). Mr. Loy also testified that certain DIUC plant purchased from Haig Point Utility Company ("HPUC") should be classified as CIAC rather than invested plant. According to Mr. Loy, International Paper (the original owner of HPUC) and later Haig Point, Inc. ("HPI") treated the utility plant in HPUC as inventory, expensed those costs, and donated those assets to HPUC. (Loy Direct, R. p. 380). As support for this conclusion, Mr. Loy testified that HPUC Water Annual Reports for the years 2000-2003 showed no plant balances at all. (Loy Direct, R. p. 381). Mr. Loy asserts that the failure to classify plant as CIAC requires adjustments to both net plant and CIAC amortization. Mr. Loy also testified that the appropriate characterization of DIUC plant as CIAC would greatly reduce the DIUC property tax burden, both for back taxes (a reduction of $402,108 for tax years 2011-2013) and in the test year (a reduction of $115,995 for tax year 2014). (Loy Direct, R. p. 396).

In sum, the POAs recommended adjustments, largely to net utility plant, accumulated depreciation, contributions in aid of construction, and accumulated

amortization to CIAC that would reduce the rate base for combined operations to $3,276,311.

By contrast, ORS used the carryforward rate base from the last rate case in Docket No. 2011-229-WS, $4,615,755, and made adjustments through December 31, 2014[18]. (R. p. 524.) Using DIUC's utilization factor method with ORS's adjustments, ORS recommended that $1,932,858 be deducted from the Company's December 31, 2014, Application rate base. Of the amount deducted, $1,624,696 is gross plant in service representing non-allowable plant, adjustments from the previous case not carried forward by DIUC in this Application, and retirements. (Gearheart Direct, R. p. 496.)

ORS Audit Exhibit ICG-5 (Hearing Exhibit 18) shows the specific items composing the $1,624,696. ORS also increased accumulated depreciation by $141,198 and deducted $254,853 from Construction Work in Progress ("CWIP"). Accumulated amortization of CIAC added $213 to the above gross plant in service, accumulated depreciation, and CWIP adjustments to arrive at a total net plant deduction of $2,020,534. When $87,676 in working capital was added, the total rate base reduction became $1,932,858. (R. ORS Audit Exhibit ICG-1, Hearing Exhibit 18). After deducting the rate base adjustment from the Application Schedule W-B and S-B December 31, 2014, rate base of $6,914,024, ORS's recommended rate base for combined operations was $4,981,166. In summary, DIUC's recommended rate base was $7,085,475, the POAs' was $3,276,311, and ORS's was $4,981,166.

[18] For the carryforward amount, ORS used the rate base it calculated in the prior rate case instead of using the Settlement rate base in Docket No 2011-229-WS

After reviewing the evidence presented by DIUC, ORS, and the POAs, the Commission accepts the rate base determination methodology and adjustments proposed by ORS. The Commission cannot accept the rate base as proposed by DIUC, given the murky status of the equipment on the tax sale land. (See discussion below.) The ORS methodology is logical in its steps and sets forth sound methods for determining a proper rate base on which a return may be granted. Considering the number of rate cases and all that has occurred since International Paper owned the utility, the Commission declines to adopt the rate base proposed by the POAs, However, the Commission's conclusions regarding DIUC's rate base do not preclude the parties from taking a different position in future proceedings if appropriate.

The Facilities

DIUC bears the burden of demonstrating the reasonableness of the plant values included in its proposed rate base, particularly when, as here, ORS and the POAs have challenged some of those values. *Utility Services of South Carolina, Inc. v. SCORS*, 392 S.C. 96, 109, 708 S.E.2d 755 (2011). The Commission agrees that DIUC has not met its burden in demonstrating the reasonableness of the plant values associated with the facilities. DIUC is permitted to earn a return only on the plant that it owns. 10 S.C. Code Ann. Regs. 103-702.16 defines "plant" as "[a]ll facilities *owned* by the utility for the collection, production, purification, storage, transmission, metering, and distribution of potable water." (Emphasis added). It is undisputed that DIUC does not own the Site, the real property upon which the elevated storage tank is located.

With respect to the facilities, although it is uncontested those assets are used and useful for DIUC, DIUC has not demonstrated that it "owns" these facilities for purposes of including their values in rate base. First, the late-filed Exhibit 6, a Letter from Gary N. James, Assessor for Beaufort County, states that in 2009 the Beaufort County Assessor's Office showed the property "as having a water tank/tower." Second, the Tax Deed states the "appurtenances to the" "Elevated Tank Site" were conveyed to Mr. Sabry. While "appurtenances" is not defined in the Tax Deed, the Black's Law Dictionary (9th ed.) definition of the term "appurtenance"- "[s]omething that belongs or is attached to something else"-- suggests that the facilities were "appurtenances."

Similarly, the evidence in the record is conflicting regarding what property was transferred by the Tax Deed. DIUC witness Walls testified in her pre-filed testimony that the Tax Deed did not include any DIUC utility property, and further that Mr. Sabry is not taxed for the facilities. (R. p. 83). However, on cross examination by ORS, Ms. Walls stated she could not answer the question of whether the elevated storage tank is an "appurtenance" that would have been conveyed in the grant to Mr. Sabry. (Walls, R. p. 100). Further, Hearing Exhibit 19 (Exhibit WJM-7), a printout from the Beaufort County website and describing the Elevated Tank Site, shows that Beaufort County is taxing Mr. Sabry, not DIUC, for at least one building on the property (described as a "UTLSHED").

With respect to the question of whether DIUC pays property taxes to Beaufort County based upon the value of the facilities, the record is also unclear. ORS witness Morgan testified that based on conversations with the SC Department of Revenue ("DOR"), Beaufort County and DIUC, ORS understands that DOR utilizes the utility

plant-in-service values DIUC lists on Schedule 201 (Utility Plant-in-Service) of the Water Annual Report to value the amount of property subject to tax by Beaufort County. (Morgan Surrebuttal, R. p. 516). DIUC submitted Revised Water Annual Reports to ORS and the Commission for years 2012 and 2013. (Hearing Exhibit 20). In the Revised Water Annual Reports filed by DIUC, DIUC made adjustments on Schedule 201, adjusting the value of the utility plant-in-service by ($1,110,715) for 2012 and ($893,781) for 2013. ORS testified these amounts appear to correspond to the plant asset value of $863,379 removed by ORS for the elevated storage tank in Docket No. 2011-229-WS. (Id.)

ORS witness Morgan testified that he understood that DIUC specifically filed Revised Water Annual Reports for 2012 and 2013 to reflect the rate base allowed in Docket No. 2011-229-WS which would likely result in a reduction of the property valuation computed by DOR for DIUC. (Id.) Mr. Morgan stated it also appears that the Water Annual Report filed by DIUC for 2014 includes similar adjusted plant-in-service values. ORS's position is that DIUC should not be allowed to earn a return on the elevated storage tank for ratemaking purposes while at the same time having taken action that could reduce property taxes by revising annual reports to deduct a value corresponding to the elevated storage tank value. (Id. at 516-517).

The Commission agrees with ORS that DIUC's adjustments reducing plant-in-service values for property tax purposes, as well as the uncertainty regarding what DIUC owns as a result of the delinquent tax sale, support removing the value of the facilities from DIUC's rate base in this case. DIUC's actions in removing plant for reporting

purposes and thereby removing the corresponding tax obligations associated therewith, are inconsistent with the proposition that DIUC owns those assets for ratemaking purposes. While DIUC may not have adjusted its utility plant-in-service by the exact value of the elevated storage tank, in at least two tax years DIUC has reduced its total utility plant-in-service by a value very similar to (and actually exceeding) that of the elevated storage tank.

In other words, and contrary to its testimony, DIUC does not pay taxes on all of its utility plant-in-service that it claims to be part of its rate base in this Docket. The Commission concludes that removal of the facilities from rate base is therefore appropriate in these circumstances at this time. DIUC has attempted to condemn the real property at issue, however, the legality of the Company's condemnation of the land which was sold at a Tax Sale is presently before the South Carolina Court of Appeals for a ruling. Should the Court rule in favor of the Company, then the issue of ownership of this property and possible inclusion in rate base may be clearer for further examination in a future rate case.

Also, regarding the question of Company facilities located on the real property of private owners, public witness Delaney raised the issue of a treatment plant on his private property in Bloody Point which has not been addressed by the Company. We believe that the Company should attempt to resolve this issue as soon as possible, and file the general status reports on utility property located on private land as required by our "ordering section" below.

Property Taxes

Since the last DIUC rate case in 2011, all parties agree that DIUC has had difficulties concerning property taxes DIUC did not pay 2009 and 2010 property taxes when due. As discussed above, DIUC lost property in a delinquent tax sale as a result. DIUC testified that Beaufort County mailed the tax bills to the wrong address. (Guastella, R. p. 139). In addition, the Company's 2012, 2013, and 2014 Beaufort County property taxes were significantly higher than what they had been in years prior. (Id.) At issue among the parties is how much property taxes should be paid by the ratepayers.

After learning about the delinquent taxes, DIUC and the Beaufort County Treasurer entered into a settlement agreement that was entered into evidence. The settlement agreement allowed DIUC to pay Beaufort County monthly payments of $5,487.95 to cover property taxes totaling $526,843.39 for 2012, 2013, 2014, and 2015. The Beaufort County Treasurer testified that the monthly payment was derived by amortizing the $526,843.39 over eight years. (Walls Rebuttal, R. p. 83, *see also* Hearing Exhibit 5). Originally the amount was $651,267.27, but the settlement agreement was amended to the reduced amount of $526,843.39 after the SC Department of Revenue ("DOR") submitted lower asset values to Beaufort County. (Id.)

With respect to its property tax request in this case, DIUC requested additional annual property tax expense of $65,856 for the 2012, 2013, 2014 and 2015 taxes and $ 188,093 for the annual amount of taxes going forward. DIUC's property tax expense request totaled $258,158 ($4,209 per books plus $65,856 plus $188,093). (Guastella Rebuttal, R. p. 212). The POAs recommended that DIUC's tax expense be based on the

POAs' downward-adjusted rate base. (Loy Direct, R. p. 367). ORS testified that DIUC's current books reflected approximately $4,000 annually for property taxes and, with the ORS adjustments, DIUC would have $171,492 annually to cover property taxes.

Specifically, ORS recommended that DIUC receive $30,612 annually for the 2012 and 2013 taxes totaling $244,899 amortized over 8 years and $140,880 for the 2014 or test year taxes. (Gearheart Direct, R. p. 495). ORS based its 2012 and 2013 adjustment amount and amortization period on DIUC's settlement with Beaufort County. The 2014 adjustment was based on the actual tax bills/assessment. ORS witness Gearheart testified that ORS allowed amounts for the 2012 and 2013 taxes, because DIUC did not have an opportunity to request a rate increase to cover the taxes after agreeing to a moratorium through July 1, 2014, in the settlement in Docket No. 2011-229-WS. (Id.). ORS declined to allow property taxes for 2015 since ORS utilizes a historical test year.

Based on the evidence in the record and adopting the property tax analysis in the section entitled "The Facilities" above, the Commission adopts the property tax amounts as computed by ORS as they are based on known and measurable amounts. The Commission acknowledges that the 2015 property taxes appear to be set pursuant to the Settlement; however, we do not believe the 2015 amounts should be covered by ratepayers. The 2015 tax bill is not due until 2016 and this Commission notes that the Company's settlement agreement with Beaufort County has already been amended once, and could be amended in the future. We decline the POAs property tax recommendation since the POAs based their recommendation on a lower rate base amount that we do not

adopt. Also, the POAs agreed to the ORS property tax recommendations in the Settlement. Further, we reject the Company's property tax recommendation, since it is based in part on the questionable ownership status of real property as noted above.

Management Fees, Rate Case Expenses, and Other Expenses

DIUC has a contract with GA for management services which was entered into evidence. (Hearing Exhibit 9.) In it, and confirmed through cross examination by the POAs and ORS, DIUC acknowledged that it agrees to pay GA a management fee of $13,596.85 a month with an annual 3.5% increase; a finance fee of 2% of the principal amount of any loan or GA's actual total hourly rates for handling the loan, whichever is greater; a capital fee of 10% for the first $50,000 of construction and 8% for construction costs over $50,000; an incentive fee of 20% of the total net utility operating income; an incentive fee if DIUC is sold; rate case expenses; travel expenses; and expenses related to regulatory investigations and proceedings.

In its Application, DIUC requested that ratepayers cover $171,364 for management services paid to GA. Per ORS, DIUC also included an incentive fee in its test year management fees. (Gearheart Direct, R. p. 493). POA witness Lanier testified that the Commission should not allow DIUC to use its higher expenses related to GA to justify the need for a rate increase. (Lanier Direct, R. pp. 421-422). ORS recommended that GA's management fees be limited to the previously Commission-approved amount of $132,211 a year. (Gearhart Direct, R. p. 539). ORS testified that it found no apparent increases in the management services provided by GA and did not find the requested increase justified.

DIUC requested $191,200 for current and unamortized rate case expenses to be recovered over 4 years. (Guastella Rebuttal, R. p. 218). DIUC also testified that it would update its rate case expenses at the hearing to show the additional expenses incurred since the Application. (Guastella, R. p. 181). ORS proposed that rate case expenses total $97,500 and be amortized over five years. (Gearheart, Direct R. p. 494). The $97,500 consists of capped current rate case expenses in the amount of $75,000 for GA's preparation of the Application, developing rate models, calculating test year data, filing other rate case documents and legal expenses. ORS recommended $75,000 as a reasonable amount for rate case expenses in the last rate case. The remaining $22,500 is unamortized rate case expenses from the previous rate case. (Gearheart, Direct R. p. 495).

ORS excluded from operating and maintenance expenses the incentive fee[19] included in the test year and $25,439[20] representing GA's management fee, legal expenses related to the property tax appeal and tax sale of the water tower, and other expenses not allowable for rate making purposes. (Gearheart, Direct R. p. 493). DIUC witness Guastella disputed all exclusions noting "[GA's] efforts reflect an unequivocal commitment to provide adequate service to the customers, some of which were achieved because of GA's rate setting expertise that is not typical of other managers." (Guastella Rebuttal, R. p. 198). "Having consulted for some 600 developer-related water and sewer utilities, I am not aware of any that had managers with the regulatory, utility accounting, valuation, or rate setting experience that GA applied in meeting the challenges of

[19] *See* ORS Adjustment 4(m).
[20] *See* ORS Adjustment 4(g)

managing DIUC." (Guastella Rebuttal, R. p. 218). DIUC witness Guastella also testified, contrary to ORS's testimony, that the existing and proposed rates do not include any allowance for GA's incentive fee. (Guastella Rebuttal, R. p. 216).

Upon review of the evidence, the Commission adopts ORS's adjustments for management fees, rate case expenses, and non-allowable expenses. We agree that GA provides services to the ratepayers, but disagree that the services are at a level that warrant the amount set forth in the management services contract. We think it is appropriate for DIUC stockholders to have responsibility for the difference. While customer service complaints are few in number, this Commission did hear testimony at the merits hearing that GA was an absentee management company.. Mr. Guastella testified that he and his son live in Florida, the Vice President and Director of Accounting Mr. White lives in New York or Florida, and the accounting and billing for the Company is performed in Boston. (Guastella Direct, R. p. 256.) Further, he stated that the Company's books are in either Boston, Florida, or New York at various times. (Guastella, R., p. 255.) *See also* Lanier, R. p. 461.

It is undisputed that DIUC did not pay property taxes under GA's tenure (resulting in the tax sale described above), that required regulatory reports and fees have been filed and paid late (R. p. 244), and that the South Carolina Department of Health and Environmental Control ("DHEC") issued a notice of violations against DIUC (Vogel Direct, R. p. 319, ll. 14-16). We conclude the ORS-recommended amount for management expenses strikes a reasonable balance. The Commission agrees with ORS's judgment that $75,000 in rate case expenses is a reasonable amount to pass to ratepayers

for this rate case. We also agree that the amortization period and the inclusion of unamortized rate case expenses from the last rate case are reasonable. The reasons set forth for excluding the non-allowable expenses are persuasive, and those costs should not be passed on to ratepayers. The Commission is in agreement with ORS as to the removal of these expenses in the present case, which complies with sound regulatory treatment.

Bad Debt Expense

In its Application, DIUC proposed bad debt expense associated with its proposed *pro forma* revenues to equal $16,090. Initially, ORS provided testimony proposing to adjust that expense upward to $108,349. (Gearheart Direct, R. p. 498). In the Settlement between the ORS and the POAs, and consistent with DIUC's request in its Application, ORS revised its adjustment to bad debt expense to utilize the methodology proposed by DIUC in its Application. (R. pp. 502-503). The bad debt expense is included in operation and maintenance expenses reflected in Settlement Exhibit ICG-3. The Commission accepts the bad debt expense methodology proposed by DIUC and adopted by ORS and the POAs in their Settlement. We conclude that this bad debt expense methodology is just and reasonable, particularly because it encourages DIUC to collect those debts it is owed.

Other Adjustments

The remaining ORS adjustments are accepted by this Commission without discussion. They either were not disputed by the parties or were caused by carrying out the effects of the adjustments adopted above.

Performance Bond

DIUC is currently providing the maximum amount required for its performance bond in the amount of $350,000 for water and $350,000 for sewer operations. Using the criteria set forth in 10 S.C. Code Ann. Regs. 103-512.3.1 and 103-712.3.1, ORS recommended that DIUC be required to continue the current performance bond amounts. DIUC and the POAs did not challenge the performance bond amounts. Accordingly and pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, the Commission requires that DIUC maintain its performance bond in the amount of $350,000 for water and $350,000 for sewer operations.

Settlement

On October 27, 2015, the POAs and ORS filed with the Commission a Settlement, whereby the POAs and ORS agreed to recommend to the Commission a revenue increase of $462,798 for DIUC's combined water and sewer operations. The Settlement includes five exhibits based on the revenue stated in the document, with the first exhibit setting forth a proposed rate structure, the second exhibit showing the percentage increase for the proposed rates and the third, fourth, and fifth exhibits showing the operating experience, rate base and rates of return. The Settlement and its exhibits are hereby incorporated into this Order as fully as if repeated verbatim herein. . The revenue was determined by accepting all of ORS' recommended adjustments, with the exception that ORS agreed to recalculate its recommended bad debt expense to adopt the calculation methodology utilized by DIUC in its Application. No other changes were made by ORS to its adjustments. The Settlement states the $462,798 revenue increase

produces an ROE of 9.28% and an operating margin of 16.18% for the combined operations. The Settlement's proposed revenue increase, $462,798, is 39.1% of the Company's requested revenue.

At the outset of the hearing and after counsel for the POAs introduced the Settlement into the record, DIUC objected to its inclusion stating that it would be improper for the Commission to consider or rule upon its terms without hearing all evidence. The objection was duly noted and overruled, since it was decided that the better practice is to accept a Settlement when presented, but continue to hear all evidence in the case prior to making a ruling on the merits of the case.

The Commission finds, based on the testimony of DIUC, the POAs and ORS, that an increase in rates is supported by the evidence presented. DIUC has not applied for a rate increase in several years as it was prevented from doing so pursuant to the Settlement approved in its last rate case in Docket No. 2011-229-WS. Expenses have increased during the last four years, and the Company is entitled to a fair and reasonable return to allow it to serve its customers at the same level.

After reviewing the evidence in this case, we adopt and approve the Settlement and its exhibits. The Settlement includes all ORS adjustments with the exception of the bad debt expense. ORS testified that it recalculated its bad debt expense to reflect the calculation recommended by DIUC in its Application. The use of the Company's bad debt expense calculation methodology causes a downward adjustment of working capital and therefore rate base. The rate base ORS recommended in its direct testimony changes from $4,981,166 to $4,962,927 in the Settlement as a result. We find the use of the

Company's recommended bad debt expense calculation reasonable and approve the resulting rate base and Settlement in its entirety. The Settlement revenue amount produces an operating margin of 16.18%. Further, the 9.28% ROE is within the ORS-recommended range adopted by this Commission of 8.91% to 9.71% and is within 3/100's of a point to the ORS-recommended ROE of 9.31%. The Settlement will permit the Company to cover operating costs and provide an opportunity to earn the approved rate of return on rate base. The resulting ROE allows DIUC the opportunity to earn a fair return and we agree with ORS that the Settlement is in the public interest.

III. FINDINGS OF FACT

1. DIUC is a water and sewer utility providing water and sewer service in its assigned service area on Daufuskie Island, Beaufort County, South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Ann. §58-5-210, *et. seq.* DIUC's operations in South Carolina are subject to the jurisdiction of the Commission.

2. DIUC requested in its Application to increase revenues for combined operations by $1,182,301, consisting of a water revenue increase of $590,454, and a sewer revenue increase of $591,847, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a 2014 historical test year.

3. The appropriate test year period for this proceeding, selected by the Company, is January 1, 2014 through December 31, 2014.

4. The Commission will use the return on rate base methodology in determining and fixing just and reasonable rates.

5. The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or return on equity).

6. The Commission adopts and approves the Settlement in its entirety as it sets forth a fair return along with just and reasonable rates, and its terms are based on the evidence of record. The approved rates are attached hereto as Order Exhibit 1.

7. The approved Settlement utilizes a capital structure of 46% long-term debt and 54% equity; a cost of debt rate of 5.29%; and an ROE of 9.28%.

8. The Settlement ROE of 9.28% produces additional operating revenue of $462,798 consisting of a water revenues increase of $278,903 and a sewer revenue increase of $183,895.

9. The Settlement sets DIUC's rate base at $4,962,927.

10. The approved Settlement's revenues and expenses establish a fair and reasonable operating margin of 16.18%, and a return on rate base of 7.44%.

IV. CONCLUSIONS OF LAW

Based upon the Discussion, Findings of Fact as set forth herein, and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. DIUC is a public utility as defined in S.C. Code Ann. § 58-5-10(3) and as such is subject to the jurisdiction of this Commission.

2. The appropriate test year on which to set rates for DIUC is the twelve month period ending December 31, 2014.

3. Based on the information provided by the parties, the Commission concludes the appropriate rate setting methodology to use as a guide in determining the lawfulness of DIUC's proposed rates and for the fixing of just and reasonable rates is return on rate base.

4. In order for DIUC to have the opportunity to earn the 9.28% ROE, found fair and reasonable herein, DIUC must be allowed additional revenues of $462,798.

5. The rates as set forth in the attached Order Exhibit 1 are approved for use by DIUC and are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of DIUC.

6. Pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, DIUC shall post a performance bond of $350,000 water and $350,000 for sewer operations.

V. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

1. The Settlement is in the public interest, constitutes a reasonable resolution of this proceeding, and is supported by the evidence in this case. The Settlement is therefore approved.

2. The proposed rates, fees, and charges in Order Exhibit 1 are both fair and reasonable and will allow DIUC to continue to provide its customers with adequate water and wastewater services. We further find that the additional terms and conditions set forth in the Settlement are reasonable and fair.

3. The Company is to provide thirty (30) days' advance notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. § 58-5-240.

4. A return on equity of 9.28%, return on rate base of 7.44%, and operating margin of 16.18%, based on the new rates, fees, and charges, is approved for DIUC.

5. The Company shall continue to maintain current performance bonds in the amounts of $350,000 for water operations and $350,000 for wastewater operations pursuant to S.C. Code Ann. § 58-5-720.

6. The Company's books and records shall be maintained according to the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts. The Company is directed to make any necessary adjustments to its accounting system to conform to the NARUC Uniform System of Accounts.

7. The Company should promptly address all property ownership issues wherein utility facilities are located on private property, and notify the Commission and ORS in writing as to the status of ownership within six months of the date of this Order and every six months thereafter until resolved.

8. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Nikiya Hall, Chairman

ATTEST:

Swain E. Whitfield, Vice Chairman

(SEAL)

Settlement Exhibit WJM-1

Daufuskie Island Utility Company, Inc.
Schedule of Current and Proposed Rates
Docket No. 2014-346-WS

		Haig Pt. Settlement Rates	Melrose Settlement Rates
I. Residential Rates			
A. Water:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Base Quarterly Charge		$80.81	$105.05
3) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$4.41	$4.41
	Over 22,500 gallons	$4.41	$4.41
B. Sewer:			
1) Tapping Fees & Service Lateral		$500.00	$500.00
2) Base Quarterly Charge		$143.65	$105.05
3) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.38	$2.38
	Over 22,500 gallons	$2.38	$2.38
C. Irrigation:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$4.85	$4.85
	18,001 to 60,000 gallons	$5.73	$5.73
	Over 60,000 gallons	$6.61	$6.61
II. Commercial Rates			
A. Water:			
1) Tapping Fees per Hotel or Inn Room		$250.00	$250.00
2) Tapping Fees up to 1-1/2" Meter		$500.00	$500.00
3) Tapping Fees 2" or 3" Meter		$1,500.00	$1,500.00
4) Tapping Fees for 6" Meter		$3,500.00	$3,500.00
Note: Larger meters on a case by case basis.			
5) Base Quarterly Charge		$113.17	$177.77
6) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$4.41	$4.41
	Over 22,500 gallons	$4.41	$4.41
B. Sewer:			
1) Tapping Fees per Hotel or Inn Room		$250.00	$250.00
2) Tapping Fees 4" - 8" Sewer Pipe		$500.00	$500.00
3) Base Quarterly Charge		$231.93	$177.77
4) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.38	$2.38
	Over 22,500 gallons	$2.38	$2.38
C. Irrigation:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$4.85	$4.85
	18,001 to 60,000 gallons	$5.73	$5.73
	Over 60,000 gallons	$6.61	$6.61

Settlement Exhibit WJM-1

III. Availability Rates (Quarterly)

A. Water	$40.40	$99.38
B. Sewer	$71.83	$110.72

III. Special Conditions

A. Tapping Fees:

Haig Point - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.* *This applies to lots purchased prior to date of this order, but not to lots sold after the date of this order. (See Commission Order No. 93-761 in Docket No. 87-333-WS)

Melrose - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.

B. Backflow Prevention: All irrigation systems and pipes running from potable water lines must have approved backflow prevention devices installed.

C. System Development Charge: Should new customers or their agent(s) petition to connect to the systems where there are no existing lines, pumps, hydrants, etc.; and should such petitions be approved, the following requirements shall apply:

1. New customers or their agent(s) shall be responsible for the cost of installation of the new water and sewer systems, including points of connection with existing systems and effluent return systems. The installation shall be according to the requirements and satisfaction to the utility company, and costs shall include observation, testing, and certification services provided by utility company.

2. New customers or their agent(s) who install their systems must pay an amount equal to their share of the net investment in the existing plant and system facilities. This payment, on a cost per gallon of design flow, will be made according to the System Buy -in Pricing Basis (AWWA Manual 26, First Edition), based on the following formula.

a. System Original Cost - Accumulated Depreciation = Net Cost

b. Net Cost - Outstanding Debt = Total Equity*

c. $\frac{\text{Total Equity Investment}}{\text{System Water or Sewer}}$ Flow (Total design gallons per day) = $/gallons

*For these calculations, the utility company's annual report to the PSC for the preceding year shall be used. Extra strength wastewaters will be charged accordingly.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2016-50

FEBRUARY 25, 2016

IN RE:	Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	))))	ORDER DENYING PETITION FOR RECONSIDERATION AND/OR REHEARING

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("the Commission") on the Petition for Reconsideration and/or Rehearing of Order No. 2015-846 ("the Petition") filed by Daufuskie Island Utility Company, Inc. ("DIUC," "the Company" or "the Utility").

The Company argues that, if forced to implement rates as established by the Commission's December 8, 2015 rate order, it will default on its obligations and its ability to provide service will be threatened. DIUC further states that its operating results and adjustments showing gross revenues and expenses are the only numbers that should be considered in judging whether the Company can meet its obligations on its loan from SunTrust Bank, or whether the various expense amounts allowed by the Commission in Order No. 2015-846 are reasonable. See Order No. 2015-846 at 1. DIUC states that "The DIUC Proposed Order must be substituted in its entirety so as to prevent a host of problems, including DIUC's loan default." The Company characterizes the Commission's decision as being inadequate to allow it to service its debt, and also complains that the Commission

approved inadequate amounts for property taxes, management fees, rate case expenses, bad debts, and rate base. Based on the reasoning stated below, the Petition is denied.

By law, this Commission must examine a utility's proposed figures during a test year, and make adjustments to those numbers when appropriate. The Commission will consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data under the case law. See Heater of Seabrook v. Public Service Commission of South Carolina, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996). Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E. 2d 278 (1978); see also, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958). See also Order No. 2015-846 at 7. The testimony presented to the Commission showed several atypical test year figures, which are discussed further below. Clearly, this Commission may determine that some portion of an expense actually incurred by a utility should not be passed on to consumers. See Utilities Services of South Carolina, Inc. v. The South Carolina Office of Regulatory Staff, 392 S.C. 96, 708 S.E. 2d 755 (2011).

In this case, the Office of Regulatory Staff ("ORS"), consistent with accepted regulatory principles, proposed adjustments to the Company's proposed revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base, using a 2014 test year in conformance with these principles, and proffered

testimony accordingly. The three Property Owners Associations ("POAs"), which are Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., and Bloody Point Property Owner's Association, also utilized a 2014 historic test year with proposed adjustments. The Commission outlined this process in detail in Order No. 2015-846, and ultimately made a determination to accept an agreement between ORS and the POAs which utilized mostly ORS adjustments, with one exception, which was an adjustment proposed by the Company's Application. These adjustments were based on relevant evidence and were accepted by the Commission for ratemaking purposes to determine the appropriate adjustments to the Company's rates in the case as explained in Order No. 2015-846. Many of the expense figures proposed by the Company were adjusted downward, consistent with the evidence.

The operating results and adjustments showing gross revenue and expenses discussed by the Company are unadjusted numbers and are inappropriate for determining a utility's level of revenue and expenses for ratemaking purposes without adjustment under Commission procedures. Thus, it is unrealistic and contrary to regulatory principles for the Company to state that its operating results and adjustments are the "actual" numbers, and must be the only numbers used for ratemaking purposes, and that the Company's operating results and adjustments are the only numbers that should be used for determining whether certain ratios are met to determine proper service of the Company's SunTrust loan. The "book" methodology proposed by the Company assumes that the Company's ratepayers are responsible for 100% of all expenses incurred by the Company. The Commission's procedure in ordering just and reasonable rates ensures that the Company

collects only what should reasonably be paid by the Company's customers. The Utility's shareholders are responsible for the remainder in cases where proposed expenses are found to be unreasonable under Commission procedures.

II. SPECIFIC COMPANY ARGUMENTS

A. DEFAULT AND LOAN COMPLIANCE

With regard to specific points raised by the Company in its Petition, DIUC has stated that it will default on its obligations with SunTrust Bank, and that its ability to provide service will be threatened if it is forced to implement rates required by Order No. 2015-846. The witnesses for the Company testified extensively with regard to a new loan that it hoped to obtain, which would replace the present SunTrust loan discussed in the Company's Petition. There is very little testimony in the case about the present loan.

With regard to the loan at issue, the Utility alleges in its Petition that the loan documents for the SunTrust Bank financing approved by this Commission in Docket No. 2012-397-WS, Order No. 2013-605, include covenants that put DIUC in default if it does not maintain a minimum debt service coverage and minimum Earnings Before Interest, Taxes, Depreciation, and Amortization ratio. (Petition at 3.)

Unfortunately, these referenced loan documents are not in the record of this case. They were not pre-filed, nor were they offered as evidence. Further, a review of Docket No. 2012-397-WS, Order No. 2013-605, in the loan approval Docket shows that no loan documents were filed or placed into evidence in that case either. The record of this case only contains bare assertions by the Company that the Company will be unable to service its debt under the rate schedule required under Order No. 2015-846. The Petition and

Attachment A to the Petition attempt to characterize the effect the Order will have on the Company's compliance with the Covenants, offering detailed additional opinions that were not offered via testimony during the hearing. As such, no party could test those opinions, or the inputs or assumptions leading to those opinions by cross-examining a witness making them, nor could a party inquire or cross-examine a Company witness about the figures contained in the loan documents or the effect of utilization of the Commission-approved numbers to determine various ratios required by SunTrust. This raises major due process concerns for the opposing parties. See Vora v. Lexington Medical Center, 354 S.C. 590, 582 S.E. 2d 413 (2003). At the very least, these issues were prejudicial to the parties.

In general, a party cannot raise issues in a Petition for Reconsideration that were not raised during the proceeding. See Kiawah Prop. Owners Group v. Pub. Serv. Comm'n, 359 S.C. 105, 113, 597 S.E.2d 145, 149 (2004); Hickman v. Hickman, 301 S.C. 455, 456, 392 S.E.2d 481, 482 (Ct. App 1990); Patterson v. Reid, 318 S.C. 183, 185, 456 S.E.2d 436, 437 (Ct. App. 1995). While Company witness Guastella made a bare assertion at the hearing, which is referenced in the Petition, regarding the effect of adoption of the rates approved in the Settlement Agreement, the specific issues and characterizations of the Covenants, DIUC's operation under the Covenants, and SunTrust's putative actions pursuant to the Covenants raised in the Petition and discussed in Attachment A were not raised during the hearing. As a result, the Commission cannot address these issues on reconsideration.

Further, in the alternative, even if the documents on the loan were part of the record in the case, there is no present justiciable controversy with regard to the SunTrust Bank

loan. A court is obligated to inquire in every action whether a justiciable controversy exists in a matter. Treatment and Care of Luckabaugh, 351 S.C. 122, 568 S.E. 2d 338 (2002); Byrd v. Irmo High School, 321 S.C. 426, 468 S.E. 2d 861 (1996). "A justiciable controversy is a real and substantial controversy which is ripe and appropriate for judicial determination, as distinguished from a contingent, hypothetical or abstract dispute." Pee Dee Elec. Coop., Inc. v. Carolina Power & Light Co., 279 S.C. 64, 66, 301 S.E. 2d 761, 762 (1983). In the present case, DIUC states the following: ".....when SunTrust analyzes DIUC's books to determine if DIUC is in compliance with the terms of its loan, SunTrust will review the books DIUC presented to the Commission that reflect the Utility's actual expenses and bad debts." Petition at 4. This language highlights the contingent or hypothetical nature of the issue.

Further, the Company argues that collecting at the approved rates, there will be no money for equity return and DIUC will fail SunTrust's tests for debt service coverage and the Earnings Before Interest, Taxes, Depreciation, and Amortization ratio. Also, "the lack of income allowed to DIUC by the recent Order will put DIUC in default on its $2,500,000 term loan and will preclude DIUC's ability to repay its $500,000 line of credit." Petition at 3. Again, the Utility is describing a future contingent or hypothetical event. The only information provided is a bare assertion by the Company as to what could happen in the future. There is no evidence that SunTrust Bank has examined these issues. Loan provisions that may have some negative impact in the future cannot constitute a present, justiciable controversy. See Kiawah Property Owners Group v. The Public Service Commission of South Carolina, 357 S.C. 232, 593 S.E. 2d 148 (2004)

Further, it is important to point out that even if the matter constituted a justiciable controversy, and the relevant documents had been filed by the Company, the usefulness and propriety of those documents under ratemaking principles may not have had any bearing on the outcome of this case. The Company's long-term debt and capital structure were fully considered in this case by ORS witness Dr. Douglas H. Carlisle (Carlisle Direct, R. pp. 472-473), and the Commission considered these factors in its deliberations in this case. An examination of long-term debt and capital structure take into consideration debt such as that incurred with the Utility's SunTrust Bank loan. Therefore, even if the specific SunTrust loan documents had been in the record, the evidence may not have justified any other rates than the rates that were set in our original order in this case, Order No. 2015-846.

To summarize, the Commission cannot now consider that portion of the Petition characterizing the effect of Order No. 2015-846 on the Covenants, or the entirety of Attachment A to the Petition, since the documents were not submitted into the record under Commission rules, nor was a Company witness presented to explain and present the documents. This is tantamount to not raising the issue at all during the hearing on the merits. Moreover, even if this Commission considered DIUC's bare assertions in the record as sufficient to raise the matter at the hearing, the Company failed to meet its burden of proof, since it presented no detailed testimony and no exhibits concerning its position on the matter. Further, a matter cannot be raised for the first time on reconsideration, nor can the Commission rule on a matter that is not a justiciable controversy. In addition, even if the Company had furnished the requisite documents, and the SunTrust loan was squarely

before the Commission, the Company's long-term debt and capital structure, which included the debt incurred by the SunTrust Bank loan, were considered by the Commission through the testimony of ORS witness Carlisle. Consequently, we reject the Company's arguments on this issue.

B. ADJUSTMENTS FOR RECONSIDERATION

In the alternative, the Company requests rehearing or reconsideration of adjustments granted in Order No. 2015-846 for property taxes, management fees, rate case expenses, bad debts, and also asks for rehearing/reconsideration on two rate base matters. The Company failed to provide any new arguments on these matters, so we affirm our original holdings, and comment further in the paragraphs below.

Clearly, with the exception of affiliate transactions, a utility is entitled to a presumption in a ratemaking proceeding that its expenditures were reasonable and incurred in good faith. Nevertheless, the presumption in a utility's favor clearly does not foreclose scrutiny and a challenge. In these circumstances, the burden remains on the utility to demonstrate the reasonableness of its costs. Utilities Services of South Carolina, 392 S.C.at 110 and 708 S.E. 2d at 763. See also Hilton Head Plantation Utilities, Inc. v. The Public Service Commission of South Carolina, 312 S.C. 448, 441 S.E.2d 321 (1994). As in Utilities Services, the Utility in the present case wants the presumption of reasonableness to be dispositive. However, as in Utilities Services, it is not. The Company failed to meet its burden in the face of substantial evidence presented by ORS and other parties challenging its expenditures. Further, in the case of the management fees, the Utility is not entitled to the presumption, as will be explained further below.

i. **Property Taxes**

DIUC asks the Commission to reconsider the property tax expenses allowed for DIUC. ORS's recommendation supports DIUC recovering $171,492 annually from ratepayers to cover taxes utilizing the per book amount, the 2012 and 2013 tax amounts, and the 2014 test year amount. It is undisputed that DIUC did not pay Beaufort County taxes in 2009 and 2010. Unpaid property taxes were the cause of the delinquent tax sale of DIUC property in 2011. In addition, Beaufort County and DIUC entered into a Property Tax Settlement Agreement, amended once, for the payment of taxes for years 2012, 2013, 2014, and 2015. ORS recommended that DIUC receive $30,612 annually for the 2012 and 2013 taxes totaling $244,899 amortized over 8 years and $140,880 for the 2014 or test year taxes. ORS allowed amounts for the 2012 and 2013 taxes, because DIUC did not have an opportunity to request a rate increase to cover the taxes after agreeing to a moratorium through July 1, 2014, in the settlement in Docket No. 2011-229-WS.

With respect to the 2015 taxes, of which ORS declined to support recovery by DIUC, ORS testified that in the normal course taxes are due the following tax year, 2016. Specifically, ORS witness Gearheart testified that 2015 taxes were not allowed because 2014 was the test year, 2015 is a future year, DIUC has not been billed for the 2015 taxes, and ORS does not know what the future taxes will be. (R. p. 518, ll. 14-25; p. 519, ll. 1-16). Because of this testimony, the Commission declined to allow an amount for 2015 taxes, because the amount was outside the test year, was not known and measurable, and the 2014 property tax amount was properly included in the test year expenses.. Although this Commission could have considered and allowed this out of test year amount if

appropriate evidence had been presented, this Commission declined to do so, based on the ORS testimony described above. Under normal application of the use of a test year, the Company would have been granted one year's property tax expense. The fact that the Company has delinquent taxes is not the fault of the customers. ORS supported over $170,000 annually for property taxes which is well in excess of one year's expense (= $140,880). The Commission did consider and allow out of test year amounts already for property taxes in general.

Further, as discussed in Order No. 2015-846 at 21, the Company does not pay taxes on all of its utility plant-in-service that it claims to be part of its rate base in this Docket. In at least two tax years, DIUC has reduced its total utility plant-in-service by a value very similar to (and actually exceeding) that of the disputed elevated storage tank which is located on former utility property sold at a tax sale for failure to pay property taxes. (See further discussion in Rate Base section below.) Clearly, the property tax situation with this Utility was, and still is, in great disarray. The overall ORS adjustment to property taxes was accepted by this Commission as part of the approval of the agreement between ORS and the POAs in Order No. 2015-846, because we held that it was the best analysis of the Company's property taxes available in the case. The Commission still believes that the property tax adjustment adopted in that Order was proper, and was supported by the evidence in this case, even though the Company asserts that only the full amount claimed would be appropriate. We reaffirm our findings in Order No. 2015-846 on this issue.

ii. Management Fees

DIUC asserts that the Commission should have approved recovery of 100% of the management fees of Guastella Associates, LLC ("GA"). The GA Management Contract with DIUC shows GA charges DIUC the following:

1. a management fee of $13,596.85 a month ($163,162 annually) with an annual 3.5% increase;
2. a finance fee of 2% of the principal amount of any loan or GA's actual total hourly rates for handling the loan, whichever is greater;
3. a capital fee of 10% for the first $50,000 of construction and 8% for construction costs over $50,000;
4. an annual incentive fee of 20% of the total net utility operating income;
5. an incentive fee if DIUC is sold;
6. rate case expenses;
7. travel expenses (all of GA's out-of-pocket traveling expenses (including without limitation, transportation, room and board) and mileage reimbursement at the then current rate).
8. expenses related to regulatory investigations and proceedings.

See Hearing Exhibit 9.

In its Application, DIUC requested that ratepayers cover $171,364 for outside management expenses. Per ORS, DIUC also included an incentive fee in its test year

management expenses. POA witness Lanier testified that this Commission should not allow DIUC to use certain expenses related to GA to justify the need for a rate increase. His reasoning is that the GA management contract expenses allow for an inflation-based increase of 3.5% per year, whereas the actual inflation rate over the last three years was less than 2.0% per year. (Lanier Direct, R. pp. 432-433). ORS recommended that GA's management fees be limited to the previous Commission-approved amount of $132,211 a year. (Gearheart Direct, R. p. 493).

ORS testified that it found no apparent increases in the scope of management services provided by GA and did not find the requested increase justified, contrary to the position taken by the Company. Id. The Company has not persuaded this Commission that the allowable amount of expense for the Company's management fees should be increased. We believe that the amount allowed in Order No. 2015-846 was proper. The ORS adjustment was a reduction of $25,439 to the Company's per books amount of $157,650. We adopted the ORS adjustment as fair and reasonable. ORS also excluded from operating and maintenance expenses the incentive fee paid to GA of 20% of net operating income included in the test year, legal expenses related to the property tax appeal and tax sale of the water tower, and other expenses not allowable for rate making purposes, all adjustments which were adopted by this Commission.

Further, although expenses of a public utility are presumed to be reasonable when incurred in good faith, the presumption does not apply to affiliate payments. When payments are made by a regulated public utility to an affiliate, mere showing of actual payment does not establish a prima facie case of reasonableness. Clearly, Daufuskie Island

Utility Company, Inc. and its management company Guastella Associates, LLC are affiliates, as per the Agreement between the two dated June 18, 2015. See Hearing Exhibit 9. (An "affiliate" is defined by Black's Law Dictionary Free Online Legal Dictionary 2nd edition as "Companies that have a shared resources, interests, or business dealings.") In addition, further evidence of affiliation between GA and DIUC is shown in the Utility's 2014 Annual Report to the Commission and ORS. John Guastella, the Managing Member of Guastella Associates, LLC, has been a member of the Board of Directors of DIUC since July 9, 2008.[1] Further evidence of Mr. Guastella's membership on the DIUC Board of Directors is found at page 227 of the Transcript of Record, wherein Mr. Guastella admitted that he was still a DIUC Board of Directors member at the time of his testimony in this case.

The payment of unexplained expenses to affiliates does not entitle a regulated water and sewer utility to a requested increase in rates and charges. The rule is that if there is an absence of data and information from which the reasonableness and propriety of the services rendered and the reasonable cost of rendering such services can be ascertained by the Commission, allowance is properly refused. Hilton Head Plantation Utilities v. The Public Service Commission of South Carolina, supra. This language from the Hilton Head Plantation Utilities case requires the PSC to review and analyze these intercompany dealings and determine if they are reasonable. Kiawah Property Owners Group v. The Public Service Commission of South Carolina, 338 S.C. 92, 525 S.E. 2d 863 (1999). Again,

[1] The Company's 2014 Annual Report on file with the Commission is deemed to be part of the Company's Application, which is part of the record of this case, pursuant to the procedures set out by the South Carolina Code of Laws. See S C. Code Ann Regs. 103-512.4.A15, 103-712 4.A.15 and S.C. Code Ann. Section 1-23-320 (G) (3) (Supp 2015).

ORS found no apparent increases in the amount of management services provided by GA since the last rate proceeding, and, accordingly, recommended that no increased amount be granted in the present case, and this Commission adopted the ORS finding. Since the Company did not provide a reasonable explanation for its request for an increase in this area, the extra expense was properly denied. Our findings in Order No. 2015-846 are correct.

iii. Rate Case Expenses

With respect to rate case expenses, DIUC requested $191,200 for current and unamortized rate case expenses to be recovered over four years. (Guastella Rebuttal, R., p. 218). ORS recommended $75,000 as a reasonable recovery amount for rate case expenses in the present case, and $22,500 in unamortized rate case expenses from the previous rate case. (Gearheart Direct R. pp. 494-495). Pursuant to the GA Management Agreement (Hearing Exhibit 9), rate case expenses are charged separately by GA to DIUC and during its audit, ORS alerted DIUC to concerns related to the large amount of rate case expenses attributed to GA. Accordingly, ORS recommended the same amount of rate case expenses, $75,000, as granted in the Company's last rate order, along with $22,500 for previously unamortized rate case expenses. (Gearheart Direct R. pp. 494-495). ORS saw no justification for additional rate case expenses in the present case. Again, the rate case expenses submitted by GA were from an affiliate of the utility. The Commission agrees with ORS as to the unreasonableness of additional rate case expenses charged by GA over and above what GA was already charging the utility in a monthly management fee of over

$13,000. We adopted the ORS adjustment through adoption of the ORS-POA agreement in the present case, and nothing has persuaded us that this amount should be modified.

iv. Bad Debt

DIUC asks the Commission to adopt the bad debt adjustment set forth in ORS's direct testimony instead of the Settlement Agreement. The Settlement Agreement bad debt adjustment simply uses the methodology proposed by the Company in its Application (Schedule A-4) which results in a lower number than the one put forth in the ORS direct testimony. We agree with the Company that DIUC's adjustment was $16,090 with a total *pro forma* amount of $30,852. The Company's Petition makes the following statement: "There is no proof that $30,852 is realistic or anywhere close to the actual amount." (Petition at 18). If this is the case, then one must query why the Company included the amount in its Application in the first place. Company witness Guastella's explanation at the hearing seems to be that the Company came up with a conservative adjustment for its Application, but on second thought, the ORS proposed adjustment was more favorable to the Company. (Guastella, R. pp. 136-137). However, ORS later entered into an Agreement with the POAs that the Company's original adjustment in its Application was a more accurate adjustment for bad debt.

The explanation for the original DIUC bad debt adjustments under both water and sewer expenses appears in both Schedules WC-1 and SC-1and states as follows: "Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates." The adjustment and percentages appear to be reasonable, and the adjustment is therefore reasonable, above and beyond the fact that the

bad debt adjustment was a product of the agreement between ORS and the POAs. Interestingly, the language belies the Company's position in its Petition that information in the prior rate case should not be used as a basis for adjustment in the present rate case. The Company did exactly that with its original Application adjustment for bad debt expense. In any event, we discern no error in adopting the bad debt expense from the Company's Application, since the Company gave a reasonable explanation for its original adjustment, and ORS and the POAs subsequently agreed with the Company. The original bad debt adjustment is clearly supported by the evidence.

a. References to the Previous Rate Case

DIUC maintains that it was error, based on Utilities Services of South Carolina v. The South Carolina Office of Regulatory Staff, Id. ("Utilities") for the Commission to "rely on" Order No. 2012-515 in Docket No. 2011-229-WS (DIUC's most recent rate case) for its reasoning in the present case (Petition at p. 13) in considering ORS's adjustments to the management fees of Guastella Associates, as well as DIUC's rate case expenses. DIUC's application of Utilities is misplaced, as this Commission did not "rely on" Order No. 2012-515 in approving ORS's adjustments, but rather used the adjustments approved by Order No. 2012-515 as a baseline for determination, and then relied on the evidence provided by ORS and the POAs to arrive at a final decision.

While Utilities does stand for the proposition that it is erroneous to use a previous rate increase as justification for denying a rate increase, Utilities, 392 S.C. 115, 708 S.E.2d 765, that case also recognizes that "a previous rate increase may provide a baseline for the PSC to use in determining whether a utility has incurred additional expenses requiring

additional revenue." Id. This Commission used the information from Docket No. 2011-229-WS as a baseline for consideration of DIUC's proposal, but used the evidence in this Docket to justify the decisions in Order No. 2015-846.

In other words, a previous rate increase is typically a "starting point" in a new rate case. Accordingly, the only way for DIUC to attempt to justify an increase in expenses (or for the ORS or the POAs to attempt to rebut a proposed increase) is to "compar[e] the expense from the test year used in the previous rate case with those from the test year in this case...." Heater of Seabrook, Inc. v. Public Service Comm'n of S.C., 324 S.C. 56, 61, 478 S.E.2d 826, 828 (1996). Furthermore, amounts for management fees and rate case expenses in Docket No. 2011-229-WS provide the "baseline" or standard against which to compare DIUC's proposed expenses for those items in this Docket, because those fees and expenses previously were deemed reasonable by the Commission.

However, DIUC cannot satisfy its burden of proof simply by comparing the current test year expenses with those in the previous rate case. Utilities, 392 S.C. 109, 708 S.E.2d 762. Instead, when the reasonableness of proposed fees and expenses are challenged (as was the case here), "the burden remains on the utility [DIUC] to demonstrate the reasonableness of its costs." Id. And as Order No. 2015-846 makes clear (pp. 26-27), the Commission determined, based on substantial evidence in the record (including the testimony of POA witnesses), that DIUC did not satisfy that burden to demonstrate that those challenged costs were reasonable. In sum, this Commission followed the procedure contemplated by South Carolina law, and Utilities in particular, in making adjustments to

DIUC's proposed fees and expenses, and no basis to grant rehearing or reconsideration of the Order exists, based on references to the prior rate order.

v. Rate Base Issues

In its Petition, DIUC asserts that the elevated storage tank located on the Utility's land sold at a tax sale should be included in DIUC's rate base. ORS excluded the elevated storage tank from rate base for the following reasons:

1. The property on which the elevated storage tank sits was sold in 2011 during a delinquent tax sale and the property is no longer owned by DIUC.
2. The elevated storage tank was excluded from the last rate case, Docket No. 2011-229-WS, for the same reason in item #1 above.
3. The delinquent tax sale deed states that all "appurtenances" convey to the delinquent tax sale purchaser, Mr. Sabry. Treasurer Walls of Beaufort County was unable to opine whether or not the elevated storage tank is an appurtenance. If the elevated storage tank is an appurtenance, it would follow that the tank was conveyed to Mr. Sabry by means of the Beaufort County delinquent tax sale deed. Ms. Walls provided testimony that DIUC is paying utility taxes on the elevated storage tank to Beaufort County; however, testimony showed that while Mr. Sabry is not paying taxes on the elevated storage tank, he is paying Beaufort County taxes on a building located on the same property the County describes as a "UTLSHED."
4. DIUC has not proven it owns the elevated storage tank.

5. ORS understands DIUC is pursuing condemnation proceedings for the property and such condemnation proceedings are not within the jurisdiction of this Commission.
6. DIUC revised its Annual Reports to the Commission and ORS by lowering property values in apparent efforts to have its property taxes reduced. The values by which DIUC revised its Annual Reports appear to correspond to the value of the elevated storage tank and other property excluded for utility ratemaking purposes. ORS does not fault DIUC for revising its Annual Reports. Instead, it is ORS's position that DIUC cannot reap benefits of being the owner of the elevated storage tank for ratemaking purposes, but not the owner for property tax purposes. The Commission adopted this reasoning in Order No. 2015-846.

See Walls Rebuttal, R. pp. 101-102; Morgan Direct, R. p. 511; Morgan Surrebuttal, R. pp. 515-517; R. p. 529 and Hearing Exhibit 20.

ORS states that, if DIUC produces a deed stating that it is the owner of the property on which the elevated storage tank sits or if a court issues an order in DIUC's condemnation proceedings stating it owns the elevated storage tank, then ORS would fully support the value of the elevated storage tank being in rate base in DIUC's next rate case. (See, for example, R. p. 529.) This Commission also adopted this position. In the meantime, there is sufficient uncertainty regarding the elevated storage tank's ownership causing ORS to decline recommending that ratepayers pay DIUC a return on it, and this Commission agreed that there was a lack of substantial evidence supporting the Utility's position.

DIUC asserts that the record lacks evidence on the ORS rate base adopted by the Commission. To the contrary, ORS fully supported its recommendations in testimony and exhibits and was available for cross-examination to answer any questions on its recommendations. (See also R. p. 202, ll. 21-23; p. 203, ll. 1-5). For these reasons, this Commission adopted the ORS adjustments by way of the Agreement with the POAs in Order No. 2015-846, and this Commission continues to support them. Neither rehearing nor reconsideration is appropriate.

III. RATE OF RETURN

As a general allegation, the Company's Petition also alleged that the Commission failed to grant a reasonable rate of return in this case. The Commission approved a return on equity of 9.28%, a return on rate base of 7.44%, and an operating margin of 16.18%, based on the new rates, fees, and charges approved for the Utility, so the argument that the rates set are not sufficient to yield a reasonable return is without merit. Under ratemaking principles, the Commission fully considered the Company's long-term debt and cost of debt when determining the required return on equity. The operating experience, rate base and rate of return approved in this case are sufficient to provide adequate revenues for the Company to service its debt and provide an appropriate return to the shareholders.

This Commission only allows a utility an opportunity to earn a reasonable rate of return, and the opportunity has been presented in this case. Such a return is not, however, guaranteed. Order No. 2015-846 set rates sufficient to yield a reasonable return on the value of the property found to meet utility ratemaking standards which is used to render service to the Company's ratepayers.

IV. CONCLUSION

Based on the evidence presented in the case, the Petition for Reconsideration and/or Rehearing of Order No. 2015-846 must be denied in its entirety. Other than presenting bare assertions, DIUC failed to provide any relevant documents or other materials supporting its position on the SunTrust loan issue. Accordingly, there was nothing before the Commission that would allow it to make the determination as to whether the Company could achieve its financial requirements under that loan. Even if the materials had been submitted into the evidence, it is questionable if the outcome would have changed. Also, matters may not be presented to the Commission for the first time on reconsideration, even if a present justiciable controversy exists. Moreover, no present justiciable controversy exists in this case with regard to the SunTrust Bank loan, according to South Carolina case law.

Further, DIUC did not make any additional arguments that would support a change of our position on the five adjustments outlined in the Company's Petition. References to prior rate orders are reasonable under the law when used as a baseline for development of adjustments in present rate orders. Order No. 2015-846 set rates sufficient to yield a reasonable return on the value of the property found to meet utility rate-making standards which is used to render service to the Company's ratepayers. This Commission granted the Company an opportunity to earn a reasonable rate of return.

The information provided by the Company in its Petition with regard to the adjustments had largely been heard and rejected previously by this Commission. If proposed expenses are found to be unreasonable, as the management fees and rate case

expenses were in this case, the utility's shareholders are responsible for these expenses, not the customers. Although we are aware that we are not required to "rubberstamp" the evidence presented by the Office of Regulatory Staff, as described by the Utilities case, neither are we required to reject competent evidence presented by that agency, or from other parties. The evidence presented by ORS in the present case was competent and credible, and we reasonably accepted it on its own merits. The only adjustment accepted by us as part of the Settlement Agreement that was not an ORS adjustment was the Company's original bad debt adjustment. The Company provided support for the original adjustment in its Application, separate and apart from its testimony and the Settlement Agreement between ORS and the POAs. For all of these reasons, we must deny the Petition brought by DIUC.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Nikiya Hall, Chairman

ATTEST:

Swain E. Whitfield, Vice Chairman

(SEAL)

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2016-156

MARCH 1, 2016

IN RE:	Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	))))	ORDER APPROVING APPEALS BOND

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("Commission") on the Petition for Approval of Bond Pursuant to S.C. Code Ann. Section 58-5-240 ("the Petition") filed by Daufuskie Island Utility Company, Inc. ("Daufuskie Island", "the Company" or "the utility"). Having examined the utility's Petition and supporting materials, as well as the filings submitted by the other parties, and having determined that the surety selected by the utility and that a proposed amount of the bond to be discussed *infra* are in accordance with the requirements of the applicable statute, the Commission is required to approve the bond.. Under South Carolina law, the utility may, notwithstanding this Commission's order partially rejecting its petition for rate relief, implement the proposed rate increases during the pendency of its appeal if it posts sufficient bond in accordance with S.C. Code Ann. § 58-5-240(D). Pursuant to this subsection, if our order denying in part the proposed rate relief is upheld on appeal, the utility will be required to refund the additional funds collected during the pendency of appeal with interest accrued at the rate of twelve percent per annum.

SUMMARY OF THE UNDERLYING RATE CASE

On June 11, 2015, Daufuskie Island filed an Application seeking approval of a new schedule of rates and charges for water and sewer services. The Application sought an increase in annual service revenues of $1,182,301 for combined operations. The Commission held an evening public hearing on September 15, 2015, and an evidentiary hearing on October 28, 2015. A joint proposed order was filed by the Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., Bloody Point Property Owner's Association (collectively, the POAs) and the Office of Regulatory Staff ("ORS"). The utility also filed a proposed order. On December 8, 2015, in Order No. 2015-846, the Commission approved additional operating revenues of $462,798. Daufuskie Island filed a Petition for Reconsideration and/or Rehearing with this Commission. Various parties filed responses to this Petition. On January 13, 2016, this Commission entered a Directive denying the utility's Petition. On February 25, 2016, this Commission issued Order No. 2016-50, which implemented the terms of the January 13, 2016 Directive.

TERMS AND CONDITIONS OF THE PROPOSED BOND

Daufuskie Island requests that the Commission approve a bond pursuant to S.C. Code Ann. Section 58-5-240(D) in the amount of $700,000, pending any subsequent appeal. According to the utility, the $700,000 figure represents the additional annual revenue which Daufuskie Island would be entitled to earn if the Commission had approved the Application in full. Daufuskie Island submits that, based upon the additional amount of revenues which would be generated had the Commission approved the requested

increase, a surety bond in the amount proposed is sufficient.

Subsequent to the filing of the utility's Petition, other parties in the case filed responses, proposing varying amounts for the bond. The Property Owners Associations of Haig Point, Melrose, and Bloody Point jointly assert that a bond in the amount of two years collections, plus 12% interest amounting to $1,568,000 constitutes a more reasonable amount for the bond. The ORS proposes one and one-half years' worth of collections and interest, for a total bond amount of $1,218,141.27. The utility filed replies to both parties' submissions, noting, *inter alia*, that the increase under bond to proposed utility rates would not begin until the second quarter of 2016, i.e. April 1, 2016, with bills mailed after July 1, 2016. Daufuskie Island noted that it would take until May 2017 for customers to have paid a full year of the Company-requested increased revenue.

Daufuskie Island later modified its Petition somewhat to propose that the ORS calculation for one year of collections plus interest should be used for the bond figure. Although the utility states that ORS calculated this amount to be $731,346, the actual ORS calculation for a year's collection plus interest was $787,867. In addition, the Company noted that if the Commission wanted to place additional conditions on the bond, that it would consent to either increase the bond prior to the July 1, 2017 billing, or otherwise reduce rates to the level approved by the Commission's original rate order of December 8, 2015, also to be done prior to the July 1, 2017 billings.

THE APPLICABLE STATUTE

In Section 1 of Act No. 138 of 1983, the South Carolina General Assembly substantially rewrote Section 58-5-240 of the South Carolina Code. The amendment to

Section 58-5-240 provided in part that if the Commission rejects a utility's application for rate relief, the utility may nevertheless choose to impose a rate increase while the utility seeks reconsideration by the Commission of the matter and/or appeal of the Commission's denial of rate relief before the Supreme Court of South Carolina, so long as the utility provides an appropriate surety bond in an amount sufficient to ensure repayment of any overcollection, with interest to be assessed at twelve percent per annum. The Commission is without discretion to prohibit the utility from imposing its proposed rates under an appropriate bond. The statute, as amended by the General Assembly in 1983, allows the utility to impose its proposed rates under bond as a matter of right where the utility demonstrates that the surety and the bond are sufficient to ensure that the ratepayers will be reimbursed with interest for overcharges in the event the utility's appeal is ultimately unsuccessful.

ORDER

Based on the information presented to us, the proposed surety and the bond in the amount of $787,867, effective July 1, 2016, for a period of one year are appropriate and are approved. With the additional condition approved by us, *infra*, we believe that the public is being properly protected while this matter is on appeal.

As an additional condition of the bond, the Company shall file a status report on or before May 1, 2017, to advise this Commission as to the status of the Company's appeal of this Commission's Orders. If the utility expects the appeals process to extend beyond July 1, 2017 at the time of the status report, the utility shall also file a proposal as to how it believes the bonding period should be extended. Daufuskie Island shall serve the status

report, and, if necessary, the proposal for bond continuation on the parties, who will have until May 15, 2017, to file comments with this Commission on the status report and/or proposal for bond continuation.

Should the original rates proposed by the Company be deemed excessive by the Court, then refunds plus interest must be made to the Company's customers in a manner consistent with the provisions of S.C. Code Ann. Section 58-5-240, and in a manner approved by this Commission. If the Company's appeal is unsuccessful, it shall submit a plan for refunds to the Commission, with copies to the parties within ten (10) days of receipt of the Court Order notifying them of loss of the appeal. The other parties shall then have ten (10) days from receipt of the Company's proposed methodology to comment.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Nikiya Hall, Chairman

ATTEST:

Swain E. Whitfield, Vice Chairman

(SEAL)

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2017-402(A)

JUNE 30, 2017

IN RE: Application of Daufuskie Island Utility Company, Inc. for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	) AMENDED ORDER) APPROVING JOINT) REQUEST FOR BOND) DURING APPEAL

This Order is amended to correct footnote 1 which lists the intervenors in the above captioned docket that are signatories consenting to Daufuskie Island Utility Company, Inc.'s request for an appeals bond as explained below. Footnote 1 of the original order mistakenly listed intervenor Beach Field Properties, LLC as one of the consenting signatories. According to counsel for Beach Field Properties, it is not a party to the appeal currently pending before the South Carolina Supreme Court and did not participate or consent in the matter of the appeals bond. Beach Field Properties' counsel further states that it takes no position regarding the appeals bond. Accordingly, Beach Field Properties, LLC has been removed from the list in footnote 1. The following Order is otherwise the same in content as Order No. 2017-402, issued on June 28, 2017.

This matter comes before the Public Service Commission of South Carolina ("Commission") on the "Joint Request As To Appeals Bond" ("Joint Request") of Daufuskie Island Utility Company, Inc. and a majority of the Docket's intervenors for a renewed performance bond while an appeal of its last rate case is pending before the South

Carolina Supreme Court.[1] The current bond covering the appeal period was approved by Commission Order No. 2016-156 (March 1, 2016). As the Joint Request states, the utility secured this appeal bond, permitted by S.C. Code Ann. § 58-5-240(D), to charge the rates it would otherwise be entitled to collect if the Commission had not partially denied its last application for a rate increase.

Under Order No. 2016-156, the appeal bond expires on June 30, 2017, and to meet the terms of that Order, the utility and intervenors have agreed to the following proposal:

1. If the Supreme Court does not issue a decision in the pending appeal on or before June 28, 2017, the utility shall:

    a. Renew the existing bond to continue in effect for an additional period of six months to expire on January 1, 2018, in order to continue coverage for the period July 1, 2016 to June 30, 2017;

    b. Obtain an additional surety bond in the amount of $415,728.00 to be in effect for a period of six months beginning on July 1, 2017 and expiring on January 1, 2018. The Additional Bond amount includes:

        (1) $21,794.00, representing 6 months' additional interest at 12% annually on the additional revenue the utility collected between July 1, 2016 and June 30, 2017 by virtue of implementing the Requested Rates; plus

        (2) $393,934.00, representing the difference between six months of billings (to be collected during the period beginning July 1, 2017 and ending on January 1, 2018) at the utility's requested rates and the

[1] The Docket's intervenors consenting to the Joint Request are Bloody Point Property Owner's Association, Haig Point Club and Community Association, Inc., and Melrose Property Owner's Association, Inc According to the Joint Request, these entities and Daufuskie Island Utility Company shared the proposal with the Office of Regulatory Staff, an automatic party of record pursuant to S.C. Code Ann. § 58-4-10(B).

Commission approved rates currently on appeal, plus 12% annual interest pursuant to S.C. Code Ann. § 58-5-240(D).

2. On or before June 30, 2017, the utility shall file with the Commission and serve on the parties copies of the renewed/extended existing bond and the additional bond.

3. If the Supreme Court does not issue a decision in the pending appeal on or before November 1, 2017, the utility shall then file a status report on or before November 15, 2017, to advise this Commission as to the status of the Company's appeal of the Commission's Orders. Consistent with Order 2016-156, the utility shall include its proposal for extending the existing bond and the additional bond (or otherwise providing appropriate coverage on January 1, 2018 and beyond).

IT IS THEREFORE ORDERED:

After reviewing this matter, we find that the Joint Request for the appeal bond is in the public interest and therefore approved.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Swain E. Whitfield, Chairman

ATTEST:

Comer H. Randall, Vice Chairman

2014-346-C
271372

THE STATE OF SOUTH CAROLINA
In The Supreme Court

Daufuskie Island Utility Company, Inc., Appellant,

v.

South Carolina Office of Regulatory Staff, Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., and Bloody Point Property Owner's Association, Respondents.

Appellate Case No. 2016-000652

Appeal From The Public Service Commission

Opinion No. 27729
Heard December 14, 2016 – Filed July 26, 2017

REVERSED AND REMANDED

George Trenholm Walker and Thomas P. Gressette, Jr., both of Walker Gressette Freeman & Linton, LLC, of Charleston, for Appellant.

Lyndey Ritz Zwingelberg and John Julius Pringle, Jr., both of Adams and Reese LLP, Shannon Bowyer Hudson and Andrew McClendon Bateman, both of South Carolina Office of Regulatory Staff, all of Columbia, for Respondents.

JUSTICE HEARN: Petitioner Daufuskie Island Utility Company ("DIUC") appeals an order of the South Carolina Public Service Commission ("Commission") granting only thirty-nine percent of the additional revenue requested in its application. We reverse and remand to the Commission for a new hearing.

FACTUAL/PROCEDURAL BACKGROUND

DIUC is the only provider of water and wastewater services to residential and commercial customers on Daufuskie Island in Beaufort County, South Carolina. In June 2015, DIUC applied to the Commission for approval of a new rate schedule which would provide a 108.9% revenue increase based upon a 2014 test year. Pursuant to Section 58-4-10(B) of the South Carolina Code (2015), the South Carolina Office of Regulatory Staff ("ORS") was automatically joined as a party to the matter. Additionally, a number of property owners' associations on Daufuskie Island—Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., and Bloody Point Property Owner's Association (collectively "POAs")—petitioned to intervene in the case.[1]

DIUC last requested a rate increase in June 2011. The same POAs intervened in that case and, during the merits hearing, were able to negotiate a settlement agreement with DIUC to which ORS did not object. Under the terms of the agreement, DIUC stipulated it would not file another application for rate increases before July 1, 2014. Based upon the evidence at the hearing and the parties' agreement that DIUC would be able to provide services to its customers while earning a fair and reasonable operating margin and return on equity ("ROE") under the proposed rates, the Commission approved the settlement in July 2012.

Prior to and while the 2011 rate case was pending, DIUC encountered a few unanticipated tax issues. Because the South Carolina Department of Revenue did not initially recognize DIUC as a utility, it did not begin assessing the ten and a half percent utility property tax against DIUC until 2012. Thus, instead of its expected property tax bill of approximately $10,000, in August 2012 DIUC received a bill for $132,398, with back taxes for 2010 and 2011 exceeding $230,600. Due to the substantial increase in its tax liability and its inability to seek further revenue

[1] Beach Field Properties, LLC also submitted a petition to intervene in this case which was granted. However, Beach Field did not actively participate in the case—it submitted no pre-filed testimony, presented no evidence at the hearing, refused to cross examine witnesses, nor was it party to the Settlement Agreement between ORS and the POAs—and it is not a party to this appeal.

increases until July 2014, DIUC entered into an agreement with Beaufort County to pay the back taxes for years 2012, 2013, 2014, and the projected tax for 2015.[2] Specifically, Beaufort County agreed to allow DIUC to pay the full $526,843.39 in monthly installments of $5,487.95 ($65,856 a year) over eight years, with no interest. In addition to the $65,856 DIUC owes annually pursuant to its settlement with Beaufort County, DIUC presented testimony at the hearing that its annual property tax bill going forward will be approximately $192,300. Therefore, in total, DIUC requested additional revenue of $258,158 to cover its taxes for at least the next eight years.

DIUC faced a second tax problem when the county sent one of its property tax bills to the wrong address. As a result, the tax was never paid and Beaufort County initiated tax sale proceedings. The DIUC property in question contained a 125,000 gallon elevated water storage tank and a number of related facilities including a well, water pump, and system pipes. The property ("Elevated Tank Site") was sold at a tax sale in October 2010 to Mamdouh Sabry Abdelrahman (Sabry), however, DIUC did not discover the property had been sold until early 2012.[3]

Critical to this case is the ownership of the elevated water tank, well, water pump, system pipes, and other DIUC equipment located on the Elevated Tank Site. Although the tax deed purported to convey the property "all and singular . . . with the appurtenances," DIUC presented testimony from the Beaufort County Treasurer, Maria Walls, that the tax deed did not convey "the elevated water tank, the well, the water pump, system pipes, or other DIUC property located on the Elevated Tank[] Site." According to Walls, DIUC's ownership of all the equipment located on the property remained unaffected by the tax sale to Sabry. Despite providing no

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[2] Although utility property taxes were also assessed against DIUC for 2010 and 2011, as part of the settlement agreement Beaufort County agreed to write-off the taxes for those two years.

[3] After numerous attempts to negotiate with Sabry for the return of the Elevated Tank Site, DIUC instituted a condemnation action. The circuit court granted summary judgment in favor of DIUC to pursue condemnation, and the court of appeals affirmed in an unpublished opinion. *Sabry Abdelrahman v. Daufuskie Island Util. Co.*, No. 2016-UP-301 (Ct. App. June 15, 2016).

evidence to the contrary to support its recommendation, ORS nevertheless proposed excluding the value of the utility equipment located on the property when calculating DIUC's rate base[4] and property taxes.

A hearing on the merits of DIUC's application was held in October 2015. The day before the hearing, the POAs filed a Settlement Agreement they had entered with ORS for the Commission's consideration. Pursuant to the Agreement, ORS and the POAs stipulated to each party's testimony and exhibits in the record, and the parties agreed to accept all of ORS's adjustments and recommendations, with the exception of the bad debt expense for which they agreed to adopt DIUC's proposal.[5] At the hearing, DIUC objected to the admission of the Settlement Agreement, arguing it was irrelevant and prejudicial because it bolstered ORS's recommendations without providing any new or additional evidence to support them. Over DIUC's objection, the Commission admitted the Agreement, reasoning it was more probative than prejudicial.

Following the hearing, the Commission issued an order explicitly adopting the Settlement Agreement and granting DIUC a revenue increase subject to all of ORS's adjustments, except for the bad debt expense. Shortly thereafter, DIUC filed a petition for reconsideration and/or rehearing, arguing it would be forced into default and bankruptcy if compelled to implement the rates specified in the

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[4] "'[R]ate base' is the amount of investment on which a regulated public utility is entitled to an opportunity to earn a fair and reasonable return," and "represents the total investment in, or the fair value of, the used and useful property which it necessarily devotes to rendering the regulated services." *S. Bell Tel. & Tel. Co. v. Pub. Serv. Comm'n of S.C.*, 270 S.C. 590, 600, 244 S.E.2d 278, 283 (1978) [hereinafter *Southern Bell*].

[5] Somewhat ironically, the bad debt expense was one of the ORS adjustments which DIUC was willing to accept. ORS originally recommended the bad debt expense be raised to $108,349. Although DIUC's calculations also indicated the bad debt expense to be over $100,000, in an effort to be conservative in its request, DIUC only proposed to recoup $30,852 of the bad debt expense. Despite ORS's original determination that the bad debt expense exceeded $100,000 and the uncontroverted evidence presented at the hearing supported the higher amount, the Commission held DIUC to its original request of $30,852.

Commission's order. Additionally, DIUC requested the Commission reconsider adopting ORS's adjustments to the property taxes, management fees, rate case expenses, bad debt expense, and rate base.[6]

The Commission denied DIUC's petition, holding (1) the issue of inevitable default could not be raised for the first time in a petition for rehearing; and (2) ORS's accounting methods and adjustments were in keeping with accepted regulatory principles and supported by substantial evidence. DIUC then filed a direct appeal to this Court to review the Commission's order.

ISSUES PRESENTED

1) Did the Commission err by admitting into evidence and adopting the proposed Settlement Agreement between ORS and the POAs to which DIUC was not a party and which granted only thirty-nine percent of DIUC's requested revenue increase?

2) Were the Commission's findings of fact and conclusions with respect to property taxes, management fees, rate case expenses, rate base, and bad debt supported by substantial evidence in the record?

3) Did the Commission err in denying DIUC's petition for rehearing on the grounds that DIUC will inevitably default on its loans if the rates established in the Commission's order are not modified?

STANDARD OF REVIEW

This Court affords great deference to the Commission's ratemaking decisions and "'will not substitute [its] judgment for that of the [Commission] where there is room for a difference of intelligent opinion.'" *Utils. Servs. of S.C., Inc. v. S.C. Off. of Reg. Staff*, 392 S.C. 96, 103, 708 S.E.2d 755, 759 (2011) (quoting *Kiawah Prop. Owners Group v. Pub. Serv. Comm'n of S.C.*, 357 S.C. 232, 237, 593 S.E.2d 148, 151 (2004)) [hereinafter *Utilities Services*]. "The [Commission] is considered the 'expert' designated by the legislature to make policy determinates regarding utility rates . . . ." *Kiawah Prop. Owners Group v. Pub. Serv. Comm'n of S.C.*, 359 S.C. 105, 109, 597 S.E.2d 145, 147 (2004) (quoting *Hamm v. S.C. Pub. Serv. Comm'n,*

[6] DIUC makes the same arguments with respect to each of these issues in the instant appeal. For the sake of clarity, the facts pertaining to each will be presented more fully *infra*.

289 S.C. 22, 25, 344 S.E.2d 600, 601 (1986)) (internal quotations omitted). Thus, the Commission's decision shall be affirmed as long as it is supported by the substantial evidence in the record. *S.C. Energy Users Comm'n v. S.C. Electric & Gas*, 410 S.C. 348, 353, 764 S.E.2d 913, 915 (2014). Nevertheless, the Court may reverse or modify the Commission's order if it is based upon an error of law or is "clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record," such that Petitioner's substantial rights have been prejudiced. S.C. Code Ann. § 1-23-380(5)(d), (e) (Supp. 2016); *Utilities Services*, 392 S.C. at 103–04, 708 S.E.2d at 759.

LAW/ANALYSIS

I. SETTLEMENT AGREEMENT

DIUC first argues the Commission committed reversible error in admitting the Settlement Agreement into evidence and adopting the Agreement in toto. Specifically, DIUC contends the Commission violated S.C. Code Ann. Regs. 103-846 (2012), SCRE 401, 402, 403, and the Commission's Settlement Policies and Procedures (2006).[7] We agree.

Regulation 103-846 states that "[i]rrelevant, immaterial or unduly repetitious evidence shall be excluded" and the civil rules of evidence shall apply in the hearings before the Commission. S.C. Code Ann. Regs. 103-846. Evidence is relevant if it has "any tendency to make the existence of any fact that is of consequence . . . more probable or less probable than it would be without the evidence." SCRE 401. Although all relevant evidence is generally admissible, subject to certain exceptions, irrelevant evidence is never admissible. SCRE 402. Additionally, relevant evidence must be excluded when its probative value is substantially outweighed by the danger of unfair prejudice, confusion, or needless repetition. SCRE 403.

DIUC's arguments under Regulation 103-846 and Rules of Evidence 401, 402, and 403 are practically identical. Because the Settlement Agreement was entered into by only ORS and the POAs, DIUC rightly asserts the agreement did not resolve any of the issues before the Commission. Additionally, DIUC notes the Settlement Agreement contains no evidence related to the rate adjustments at issue, and is

[7] DIUC offers two additional arguments on this issue. However, because our analysis under DIUC's first argument is dispositive, it is unnecessary for us to reach the merits of the remaining two. *See Futch v. McAllister Towing of Georgetown, Inc.*, 335 S.C. 598, 613, 518 S.E.2d 591, 598 (1999) (declining to address additional issues when the disposition of the first issue is dispositive).

therefore irrelevant and immaterial. Furthermore, DIUC argues the Settlement Agreement was unfairly prejudicial in that it bolstered ORS's proposals and attempted to usurp the Commission's fact-finding power to determine the appropriate rates.

We agree the Settlement Agreement was not relevant evidence as defined in Rule 401, and was therefore inadmissible at the hearing. S.C. Code Ann. Regs. 103-846; SCRE 401. The Settlement Agreement contained no factual evidence or stipulations related to DIUC's revenue increase requests. Moreover, the Settlement Agreement did not resolve any issues before the Commission because DIUC, the applicant seeking rate increases, was not party to the agreement. At most, the Settlement Agreement indicated to the Commission that were it to adopt ORS's recommended adjustments, the POAs would not appeal. However, a party's agreed reaction to a speculative future order of the Commission is irrelevant to the pivotal issue at the hearing—the necessity and reasonableness of DIUC's requested revenue increases. Therefore, the Commission erred in admitting and considering the Settlement Agreement.

DIUC also contends the Commission violated its own Settlement Policies and Procedures by adopting the Settlement Agreement. According to the Commission's revised settlement guidelines, it may approve settlements "[w]hen all parties to a proceeding reach agreement with regard to all issues in the form of a settlement signed by all parties or their representatives . . . ." Additionally, the Commission may not approve a settlement unless it is supported by substantial evidence presented to the Commission at a hearing.

As discussed above, this agreement was not a true settlement because all parties did not embrace it. Even the POAs' counsel recognized at the hearing that the Settlement Agreement did not resolve *any* issues between the parties, but rather was merely an agreement between the POAs and ORS not to object to one another's pre-filed testimony, and to accept ORS's recommendations and adjustments should the Commission adopt them. Furthermore, the Settlement Agreement contained multiple adjustments which were entirely unsupported by the evidence presented to the Commission. Therefore, we hold the Commission erred in approving and adopting the Settlement Agreement and DIUC is entitled to a new hearing in which the parties may present any additional evidence.[8] While we are reversing and

[8] Furthermore, we take this opportunity to overturn *Parker v. South Carolina Public Service Commission*, 288 S.C. 304, 307, 342 S.E.2d 403, 405 (1986), to the extent it holds the Commission may consider new evidence on remand only if explicitly

remanding for a new hearing as to all issues, in order to provide guidance to the Commission on remand, we address three allegations of error raised by DIUC in this appeal.

II. COMMISSION'S FINDINGS ON THE MERITS

A. Rate Base Includes Elevated Tank Site

In its order, the Commission expressly rejected DIUC's proposed rate base, which included the value of the equipment on the Elevated Tank Site, due to the "murky" impact of the tax sale on the ownership of that equipment. DIUC argues this was an error of law in light of Walls' uncontroverted testimony that the tax deed to Sabry did not convey the water tank or other utility equipment on the property. We agree.

In reaching its decision, the Commission must consider all the testimony and evidence presented to it. *Southern Bell*, 270 S.C. at 598, 244 S.E.2d at 282. The credibility and weight of the evidence submitted is particularly within the Commission's purview. *Id.* However, "evidence should be believed unless there is some reason for discrediting it." *Id.* Moreover, if all the evidence points to one conclusion or the Commission's findings "are based on surmise, speculation or conjecture, then the issue becomes one of law for the court . . . ." *Polk v. E.I. duPont de Nemours Co.*, 250 S.C. 468, 475, 158 S.E.2d 765, 768 (1968); *see also Randolph v. Fiske-Carter Constr. Co.*, 240 S.C. 182, 189, 125 S.E.2d 267, 270 (1962) (holding where there is absolutely no evidence to support the Commission's findings, the issue becomes a question of law).

We find the Commission's conclusion that the "murky" ownership of the equipment located on the Elevated Tank Site precludes DIUC from including the value of that property in its rate base is unsupported by the substantial evidence in the record. The only evidence submitted regarding ownership of the equipment came from Walls, who unequivocally stated the tax deed did not convey the utility equipment. Thus, we discern nothing in the record to suggest the ownership status of the water tank and utility property is "murky." Rather, the evidence before the

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authorized to do so by an appellate court. We now hold that a remand to the Commission for a new hearing necessarily grants the parties the opportunity to present additional evidence. Rate cases are heavily dependent upon factors which are subject to change during the pendency of an appeal, thus it serves no purpose to bind parties to evidence presented at the initial hearing which may no longer be indicative of the current economic realities on remand.

Commission is quite clear—DIUC owns the utility equipment located on the Elevated Tank Site, and is therefore entitled to include the value of this property in its rate base. On remand when the Commission recalculates DIUC's rate base, it should take into account its ownership of the water tank, well, pipes, and other utility equipment located on the Elevated Tank Site.

B. Property Tax Expense

Pursuant to its settlement with Beaufort County to discharge back taxes assessed from 2012 through 2015, DUIC requested $526,848 amortized over eight years—$65,856 annually. Additionally, DUIC calculated its annual property tax bill for 2016 to be $192,302. Therefore, DUIC proposed a total property tax expense of $258,158.

ORS recommended only allowing DIUC to recover back taxes for 2012 and 2013, receiving $244,899 amortized over eight years—$30,612 annually. ORS also proposed an additional $140,880 for the 2014 property taxes, since that was DIUC's test year. Specifically, ORS declined to recommend a separate or additional amount for the 2015 property taxes because DIUC had not yet been billed for the 2015 taxes, despite the fact the 2015 taxes were included in the Beaufort County settlement amount. The Commission adopted ORS's proposed property tax expenses, finding they were based on "known and measurable amounts." With respect to the 2015 taxes, the Commission stated:

> [W]e do not believe the 2015 amounts should be covered by ratepayers. The 2015 tax bill is not due until 2016 and this Commission notes that [DIUC's] settlement agreement with Beaufort County has already been amended once, and could be amended in the future.

DIUC argues the Commission erred as a matter of law by ignoring the known and binding tax expenses under the settlement agreement with Beaufort County as well as the calculable property taxes for 2016. DIUC further asserts the Commission's conclusion that the settlement agreement could be amended in the future to reduce DIUC's tax liability is not only speculative, but directly contrary to the evidence in the record. We agree.

When considering test-year data, "the Commission should make any adjustments for known and measurable changes in expenses, revenues and investments occurring after the test year, in order that the resulting rates will reflect the actual rate base, net operating income, and cost of capital" of an applicant. *Southern Bell*, 270 S.C. at 602, 244 S.E.2d at 284. Similarly, atypical situations or

events occurring in the test year should be normalized to reflect usual conditions. *Parker v. S.C. Pub. Serv. Comm'n*, 280 S.C. 310, 312, 313 S.E.2d 290, 292 (1984). Furthermore, if the Commission's findings are "predicated on unforeseeable future events, [they] must be reversed as speculative." *S.C. Energy Users Committee v. Pub. Serv. Comm'n of S.C.*, 332 S.C. 397, 399, 505 S.E.2d 342, 343 (1998).

By adopting ORS's adjustments, the Commission completely disregarded DIUC's binding obligation under the settlement agreement with Beaufort County in order to conform more closely to the 2014 test year. However, as this Court made clear in *Parker* and *Southern Bell*, significant known expenses incurring after the test year must be taken into account to give the Commission the most accurate view of the applicant's status. *See Parker*, 280 S.C. at 312–13, 313 S.E.2d at 292; *Southern Bell*, 270 S.C. at 602, 244 S.E.2d at 284. An annual bill of $65,856 for back taxes alone is a substantial expense for which the Commission should have adjusted the test year data. Moreover, the Commission's suggestion that DIUC may be able to reduce its tax liability by renegotiating with Beaufort County in the future is purely speculative, especially in light of Walls' testimony indicating the County would not be willing to amend the terms of the settlement agreement. Therefore, we would reverse the Commission's adoption of ORS's property tax expense adjustment.[9]

C. Bad Debt Expense

When DIUC originally calculated its bad debt expense at the end of the 2014 test year, it totaled $105,667. Nevertheless, in an attempt to be conservative in its application, DIUC only requested revenue increases to cover $30,852 of the bad debt expense. ORS calculated DIUC's bad debt at $108,349 and initially recommended DIUC's proposed amount be adjusted upward, which, unsurprisingly, DIUC was willing to accept. However, in the Settlement Agreement with the POAs, ORS revised its recommendation to conform to DIUC's requested amount of $30,852.[10]

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[9] We note the Commission rejected DIUC's property tax expense in part due to the "questionable ownership status" of the utility equipment located on the Elevated Tank Site. Because the substantial evidence indicates DIUC owns the utility property on that site, any additional property taxes attributable to that equipment should also be taken into account in the assessment of future taxes.

[10] We note DIUC submitted pre-filed testimony accepting ORS's bad debt adjustment more than two and half weeks before the Settlement Agreement was filed. Presumably, DIUC intended to concede ORS's bad debt expense proposal of

The Commission accepted DIUC's bad debt request of $30,852, concluding it was a reasonable amount "because it encourages DIUC to collect those debts it is owed." DIUC now contends the Commission erred in awarding only $30,852 to cover its bad debt expense because all the evidence in the record establishes DIUC's bad debt expense exceeds $100,000. We agree.

There is no evidence in the record indicating DIUC's actual bad debt expense is anywhere near $30,852. Rather, all the testimony and exhibits presented by DIUC and ORS show DIUC had been unable to collect well over $100,000 in bad debt. DIUC explained the reason it requested such a low bad debt recovery amount was to achieve some balance in its rate increase requests. Additionally, we are troubled by the fact that this is the only request for which the Commission did not accept ORS's adjustment, especially in light of DIUC's pre-filed testimony agreeing to ORS's recommended $108,349. Therefore, we find the Commission's decision to allow a bad debt expense of $30,852 is unsupported by the evidence in the record.

CONCLUSION

For the foregoing reasons, we conclude the Commission erred in admitting into evidence and adopting the Settlement Agreement between ORS and the POAs. Therefore, we reverse and remand to the Commission for a de novo hearing.

BEATTY, C.J., KITTREDGE and FEW, JJ., concur. Acting Justice Costa M. Pleicones, concurring in result only.

$108,349 at the hearing, but was blind-sided by the Settlement Agreement in which ORS and the POAs adopted DIUC's previously requested bad debt expense.

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
STANDING HEARING OFFICER DIRECTIVE

DOCKET NOS. 2014-346-WS Order No. 2017-52-H

AUGUST 24, 2017

Standing Hearing Officer: David Butler

DOCKET DESCRIPTION:
Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions

MATTER UNDER CONSIDERATION:
Procedural Path Forward on Remand and Related Matters

STANDING HEARING OFFICER'S ACTION:
The Commission is interested in receiving input from the parties in this matter on a possible procedural path forward on remand, now that the matter is back before the Commission for hearing. The Commission would like to hear from the parties specifically on proposed dates for the pre-filing of testimony and/or hearing dates. Also, the Commission would be interested in hearing about any other agreements that might have been reached on substantive and/or other procedural matters on remand. For these reasons, I would request that the parties respond to this Standing Hearing Officer on these matters by or before the close of business on Monday, September 11, 2017. The Commission and Staff are appreciative of your efforts in this matter.

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
STANDING HEARING OFFICER DIRECTIVE

DOCKET NO. 2014-346-WS Order No. 2017-59-H

OCTOBER 10, 2017

Standing Hearing Officer: David Butler

DOCKET DESCRIPTION:
Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions (Remand)

MATTER UNDER CONSIDERATION:
Procedural Path Forward on Remand and Related Matters

STANDING HEARING OFFICER'S ACTION:
The question before this Standing Hearing Officer is what is the best procedural path forward with regard to the remand of this case from the South Carolina Supreme Court? The Court determined that the case should be remanded to the Commission for a "de novo" hearing. Consultation with the parties in the case revealed widely divergent viewpoints as to what the Court meant by this terminology, as shown by discussions held during a telephone status conference held on October 10, 2017.

Counsel for Daufuskie Island Utility Company, Incorporated ("DIUC" or "the Company") opined that the Commission should consider the record presented in the original hearing, and accept new testimony solely on issues referred to by the Supreme Court, namely property taxes, plant in service, bad debts, management fees, and rate case expenses. Said counsel also stated the belief that the Supreme Court opinion did not allow for any discovery in this case.

Although counsel for the Office of Regulatory Staff (ORS) agreed with the "narrow scope" theory of the Company's attorney, said counsel also expressed the view at one point that perhaps discovery could be utilized.

In contrast, counsel for the Intervenor Property Owners Associations referred to the "de novo" language of the Supreme Court opinion, and stated his belief that the Court intended that the Commission hold a new hearing on all issues. This belief is indeed specifically stated by the Court in the Court's opinion contained under heading 8 in the Court's written opinion. *See* Daufuskie Island Utility Company, Inc. v. South Carolina Office of Regulatory Staff, 803 S.E. 2d 280 (2017). The Standing Hearing Officer concludes, based

on the language in the opinion of the Supreme Court, that the "de novo" terminology clearly means that the Court intended that the Commission hold a new hearing on all issues in the case. Further, since the Commission will hold a new hearing on all such issues, the Commission's discovery rules are clearly applicable.

DIUC's counsel stated a preference for the pre-filing of testimony, hearing, and issuance of an Order in this case before the end of 2017, based on the questionable ability of the Company to obtain a continuing appeal bond during the pendency of the remand, and also the expense of said bond. However, the Company's counsel had not obtained any specific information on availability or expense. Accordingly, this Standing Hearing Officer has no specific information to rely on in justifying the promulgation of an expedited schedule.

Accordingly, I hold that the pre-filing schedule on remand shall be as follows:

1. The Applicant DIUC must prefile with the Commission 1 copy of the direct testimony and exhibits of the witnesses it intends to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before November 3, 2017 (must be post-marked on or before this date).

2. All Other Parties of Record and the Office of Regulatory Staff (ORS) must prefile with the Commission 1 copy of direct testimony and exhibits of the witnesses they intend to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before January 9, 2018 (must be post-marked on or before this date).

3. The Applicant filing Rebuttal Testimony must prefile with the Commission 1 copy of the testimony and exhibits of the witnesses it intends to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before January 16, 2018. (Rebuttal testimony and exhibits must be in the offices of the Commission and in the hands of the parties on this date).

4. All Other Parties of Record and the ORS filing Surrebuttal Testimony must prefile with the Commission 1 copy of the testimony and exhibits of the witnesses they intend to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before January 23, 2018. (Surrebuttal testimony and exhibits must be in the offices of the Commission and in the hands of the parties on this date).

Failure to comply with these instructions could result in proposed witnesses' testimony and exhibits being excluded in the subject proceeding, or other possible consequences.

The hearing in this matter shall begin on Tuesday, January 30, 2018 at 10:30 AM in the offices of the Public Service Commission of South Carolina, before the Commission.

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
STANDING HEARING OFFICER DIRECTIVE

DOCKET NO. 2014-346-WS Order No. 2017-60-H

OCTOBER 11, 2017

Standing Hearing Officer: David Butler

DOCKET DESCRIPTION:
Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions (Remand)

MATTER UNDER CONSIDERATION:
Clarification of the Office of Regulatory Staff ("ORS") Position in the Case on Remand

STANDING HEARING OFFICER'S ACTION:
Counsel for ORS requests a clarification of the ORS position originally stated by this Standing Hearing Officer in the third paragraph under "Standing Hearing Officer's Action" contained in Order No. 2017-59-H. ORS Counsel states that ORS does not read the Supreme Court Order in this case in the same narrow manner presented by counsel for Daufuskie Island Utility Company, Incorporated ("DIUC"). ORS believes that the Supreme Court remanded this case to the Commission "for a new hearing as to all issues." Counsel for ORS goes on to note that ORS does not intend to argue issues on which the Supreme Court gave guidance. Further, regarding the utilization of discovery, any discovery required by ORS will depend upon the filings to be made by DIUC.

This Standing Hearing Officer appreciates, accepts, and adopts this clarification of the ORS position in this Docket. However, all other matters contained in Order No. 2017-59-H are hereby affirmed as contained therein.

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
STANDING HEARING OFFICER DIRECTIVE

DOCKET NO. 2014-346-WS Order No. 2017-61-H

OCTOBER 23, 2017

Standing Hearing Officer: David Butler

DOCKET DESCRIPTION:
Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions (Remand)

MATTER UNDER CONSIDERATION:
Ruling on Motion of Daufuskie Island Utility Company, Inc. ("DIUC" or "the Company") to Reconsider Directives 2017-59-H and 2017-60-H (together, "the Directives")

STANDING HEARING OFFICER'S ACTION:
Reconsideration is granted in part. However, an explanation is given below.

The Standing Hearing Officer continues to conclude, based on the language in the opinion of the Supreme Court (Daufuskie Island Utility Company v. South Carolina Office of Regulatory Staff, 803 S.E. 2d 280 (2017)) that the "de novo" terminology, and the reference to the Court "reversing and remanding for a new hearing as to all issues" clearly means that the Court intended that the Commission hold a new hearing on all issues in the case. Accordingly, the Commission's discovery rules are clearly applicable.

DIUC's counsel stated a preference for the pre-filing of testimony, hearing, and issuance of an Order in this case before the end of 2017, based on the questionable ability of the Company to obtain a continuing appeal bond during any pendency of the remand after the end of 2017, and also the expense of said bond. At the time of the issuance of the Directives, DIUC had no specific information to support its argument. The Company has now filed the affidavit of John F. Guastella and other materials, which support the difficulties of continuing its appeal bond after the end of 2017, and various financial consequences associated with that effort. Although counsel for the Intervenors argues vigorously against the principles espoused in the affidavit, he has submitted no countervailing affidavits or other evidence. Without such countervailing evidence, this Standing Hearing Officer believes that any ruling must be on the side of caution, and that all discovery, pre-filing of testimony, and the hearing should be accomplished as soon as possible, so that the Commission may have the opportunity to rule on this remanded matter prior to the end of 2017. The Company has already pre-filed its Direct Testimony and Exhibits. Accordingly,

the remaining pre-filing dates are modified as shown below. In establishing these dates, since an early hearing date has been granted as the Company has requested, it is incumbent upon DIUC to be prompt in responding to any discovery requests received from the other parties in this case. Specifically, it is incumbent upon DIUC to shorten its discovery response times as it has offered to do in order to effect the earlier hearing date.

In concert with the discussion above, the modified pre-filing and hearing schedule on remand shall be as follows for all remaining testimony:

1. All Other Parties of Record and the Office of Regulatory Staff (ORS) must prefile with the Commission 1 copy of direct testimony and exhibits of the witnesses they intend to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before November 15, 2017 (must be post-marked on or before this date).

2. The Applicant filing Rebuttal Testimony must prefile with the Commission 1 copy of the testimony and exhibits of the witnesses it intends to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before November 27, 2017. (Rebuttal testimony and exhibits must be in the offices of the Commission and in the hands of the parties on this date).

3. All Other Parties of Record and the ORS filing Surrebuttal Testimony must prefile with the Commission 1 copy of the testimony and exhibits of the witnesses they intend to present and serve the testimony and exhibits of the witnesses on all Parties of Record on or before December 1, 2017. (Surrebuttal testimony and exhibits must be in the offices of the Commission and in the hands of the parties on this date).

Failure to comply with these instructions could result in proposed witnesses' testimony and exhibits being excluded in the subject proceeding, or other possible consequences.

The hearing in this matter shall begin on Tuesday, December 5, 2017 at 10:30 AM in the offices of the Public Service Commission of South Carolina, before the Commission.

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
STANDING HEARING OFFICER DIRECTIVE

DOCKET NO. 2014-346-WS Order No. 2017-76-H

NOVEMBER 21, 2017

Standing Hearing Officer: David Butler

DOCKET DESCRIPTION:
Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions (Remand)

MATTER UNDER CONSIDERATION:
Directive Ruling on Discovery Date and Modifying Remaining Dates for the Pre-filing of Testimony and Exhibits and Modifying the Hearing Date

STANDING HEARING OFFICER'S ACTION:
Pursuant to the pre-filing of responsive testimony and exhibits in this case, Daufuskie Island Utility Company, Incorporated ("DIUC") propounded discovery to the Intervenor Property Owners' Associations and the Office of Regulatory Staff ("ORS"). After an objection to the date designated by DIUC for the service of answers to interrogatories was filed by ORS, and a response was filed by DIUC, discussions between DIUC, ORS, and the Intervenors began about appropriate times for the service of responses to discovery, and subsequent modified pre-filing dates and a modified hearing date. After correspondence with the parties, the Standing Hearing Officer holds that the following dates are hereby established for the remainder of this case:
November 28, 2017: All discovery responses shall be served and in the parties' hands by the close of business;
November 30, 2017: Rebuttal testimony and exhibits from DIUC must be filed and served and in the hands of the parties by the close of business;
December 5, 2017: Surrebuttal testimony and exhibits from the Intervenors and ORS must be filed and served and in the hands of the parties by the close of business, or by whatever time on that date that may be agreed upon by the parties. The parties are encouraged to negotiate on the time of day by which Surrebuttal testimony and exhibits are furnished to DIUC on December 5, 2017.
December 6 and December 7, 2017: The hearing on the merits starts at 10:30 am on December 6, 2017, and the hearing may continue into December 7, 2017;
December 11, 2017: Proposed Orders are due by the close of business. It is understood that the parties may not be able to reference the Transcript of Testimony in the proposed order.
This ends the Standing Hearing Officer's Directive.

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
STANDING HEARING OFFICER DIRECTIVE

DOCKET NO. 2014-346-WS Order No. 2017-79-H

NOVEMBER 29, 2017

Standing Hearing Officer: David Butler

DOCKET DESCRIPTION:
Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions (Remand)

MATTER UNDER CONSIDERATION:
Directive Ruling on Request for Extension for Pre-Filing Company Rebuttal Testimony and Exhibits

STANDING HEARING OFFICER'S ACTION:
Daufuskie Island Utility Company, Incorporated ("DIUC") requests an extension to pre-file and serve its rebuttal testimony and exhibits in this Docket, due to the fact that certain revised Office of Regulatory Staff testimony and exhibits were filed today. Presently, pursuant to Directive No. 2017-76-H, the Company's deadline to pre-file is at the close of business on November 30, 2017. Due to the need for processing by the Commission Staff, but recognizing the issue raised by DIUC, an extension is granted for pre-filing rebuttal testimony and exhibits until 11:59 pm on November 30, 2017. Rebuttal testimony and exhibits must be served on the parties as early as possible on December 1, 2017. If DIUC can file and serve earlier on November 30, please do so. This ends the directive.

Action Item 9

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COMMISSION DIRECTIVE

ADMINISTRATIVE MATTER	☐	DATE	**December 20, 2017**
MOTOR CARRIER MATTER	☐	DOCKET NO.	**2014-346-WS**
UTILITIES MATTER	☑	ORDER NO.	

SUBJECT:
DOCKET NO. 2014-346-WS - Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions - Staff Presents for Commission Consideration the Disposition of the Company's Application.

COMMISSION ACTION:
Move that we adopt the adjustments proposed by the Office of Regulatory Staff, with certain exceptions and explanations that I will discuss later in this Motion. I move that we adopt a rate of return on equity of 9.31%, as ORS proposed, along with ORS adjustments including, but not limited to, property taxes and the allowance of the elevated storage tank in rate base. I would move for approval of the original as adjusted bad debt expense proposed by ORS of $105,384. With regard to the rate case expenses, I move for adoption of $272,382, amortized over 3 years. I would note that we would therefore approve the ORS exclusion of $542,978 in rate case expenses corresponding to Guastella Associates invoices. However, I would also move that we allow the Company to request approval of these expenses in its next rate case, if it can provide supporting information for its invoices as outlined by the criteria listed by ORS testimony presented at the hearing.

Further move that we adopt the Company's proposed management fee amount of $171,365, versus the ORS suggested amount of $132,211. In this case, calculation of the Company's amount is based directly on the management agreement. ORS states only that it does not believe that an increase in a prior allowance is feasible, because of ORS's belief that Guastella Associates performed no more duties than in prior cases.

In addition, changes must be made to a number of items --including cash working capital -- as fallout adjustments under my motion; however, I move that all remaining ORS adjustments not mentioned above be adopted. I would state that these adjustments allow the Company 80.37% of its original request, or approximately $950,166 in additional revenues. Mr. Chairman, I would also move that our Order state that, although we are adopting the ORS recommended rate base in this filing, this will not preclude parties from proposing a different rate base in future rate proceedings. The determination of rate base for this case is largely driven by the Applicant's need for an expedited evaluation of its case on remand, and the fact that the burden was on intervenors to present a defensible alternative rate base proposal. While we do not believe that burden was met in this case, we do not preclude parties from proposing a different rate base in future rate proceedings. I also move that we require in the Order that the Company use the NARUC System of Accounts.

Further Mr. Chairman, I would request this Commission issue a full written Order at a subsequent time, explaining all adjustments and rate matters, and that the Company design and file rates that produce the revenue increase granted in this Commission's Order. The

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Company should also file a schedule with the Commission demonstrating that the rate design produces the revenue granted in the Order. These documents should be shared with the other parties in this case, who should verify that said rates are consistent with the provisions of this Order.

Finally, I move that the Company issue refunds, pursuant to S.C. Code Ann. Section 58-5-240, consisting of the difference between the amount allowed by this Order and the full amount originally requested by the Company, along with 12% interest. These amounts must be calculated from the date that the Company placed its originally requested rates into effect under bond.

PRESIDING: Whitfield SESSION: Regular TIME: 2:00 p.m.

	MOTION	YES	NO	OTHER
BOCKMAN	☐	☑	☐	
ELAM	☐	☐	☑	
FLEMING	☐	☐	☑	
HAMILTON	☐	☑	☐	
HOWARD	☐	☑	☐	
RANDALL	☐	☑	☐	
WHITFIELD	☐	☑	☐	

(SEAL)

RECORDED BY: J. Schmieding

ACCEPTED FOR PROCESSING - 2017 December 20 3:17 PM - SCPSC - 2014-346-WS - Page 2 of 2

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2018-68

JANUARY 31, 2018

IN RE:	Application of Daufuskie Island Utility Company, Inc. for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	))))	ORDER ON REHEARING

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I. INTRODUCTION

This rehearing is before the Public Service Commission of South Carolina ("Commission") upon a remittitur from the South Carolina Supreme Court ("Supreme Court").

Originally, the matter came before the Commission on the Application ("Application") of Daufuskie Island Utility Company, Inc. ("DIUC" or "the Company") filed on June 9, 2015, seeking approval of a new schedule of rates and charges for water and sewer service that DIUC provides to its customers within its authorized service area in South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A.

In the Application, DIUC requested to increase revenues for combined operations by $1,182,301, consisting of a water revenue increase of $590,454 and a sewer revenue increase of $591,847. The proposed revenue increase utilized a return on equity ("ROE") of 10.5% based on the rate of return on rate base methodology and a 2014 historical test year. Tariff changes to bring the rates between the Haig Point and Melrose communities to uniformity were also requested.

Prior to the filing of the Application in this Docket, DIUC's last rate case before this Commission was in Docket No. 2011-229-WS. In that case, Commission Order No. 2012-515 approved a Settlement Agreement entered into by the Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs"); and DIUC that was not objected to by the South Carolina Office of Regulatory

Staff ("ORS"); whereby DIUC received a revenue increase of $291,485 based on a $5,000,000 rate base; an operating margin of 16.64%; and an ROE of 8.81%. DIUC also agreed not to seek another rate adjustment prior to July 1, 2014.

DIUC's South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class B water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending December 31, 2014. The Commission-approved service area for DIUC is on Daufuskie Island located in Beaufort County, South Carolina.

The Commission's Clerk's Office instructed DIUC to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by DIUC's Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. The Commission also instructed DIUC to notify each affected customer by mailing or, where the customer had previously agreed to electronic notice, by e-mailing each customer a copy of the Notice of Filing. DIUC filed Affidavits of Publication and Mailing demonstrating that the Notice of Filing had been duly published and provided to all customers.

Petitions to Intervene were filed on behalf of the POAs on July 23, 2015, and Beach Field Properties, LLC ("Beach Field") on July 27, 2015. Beach Field did not participate in the Company's appeal of the original Commission decisions in this matter, nor in this Rehearing.

Subsequent to their intervention, the POAs requested the Commission schedule a public night hearing at a convenient time and location for customers of DIUC to present their comments regarding the service and rates of DIUC. In response, the Commission held a public night hearing pursuant to Order No. 2015-586. Under that Order, a public hearing was set and noticed by the Commission, and the Company provided an affidavit certifying that it had provided notice of the date, time, and location of the local public hearing via publication in *The Beaufort Gazette* and *The Island Packet.* On September 15, 2015, the Commission held a night hearing beginning at 6:00 pm at the Haig Point Club Clubhouse, 130 Clubhouse Lane, Daufuskie Island, South Carolina.[1]

On October 28, 2015, the Commission, with Chairman Nikiya "Nikki" Hall presiding, heard the matter of DIUC's Application beginning at 10:30 am at the Commission Hearing Room located at 101 Executive Center Drive in Columbia, South Carolina.

DIUC was represented by G. Trenholm Walker, Esquire, and Thomas P. Gressette, Jr., Esquire. The POAs were represented by John J. Pringle, Jr., Esquire, John F. Beach, Esquire, and Lyndey Ritz Zwing, Esquire. Beach Field was represented by M. John Bowen, Jr., Esquire, and Margaret M. Fox, Esquire. ORS was represented by Shannon Bowyer Hudson, Esquire, and Andrew M. Bateman, Esquire.

At the October 28, 2015 hearing, a Settlement Agreement between the POAs and ORS was entered into the record after an objection to it by DIUC was overruled. DIUC,

[1] Hearing Exhibit 1 consists of the night hearing sign-in sheets and Hearing Exhibit 2 consists of comments filed by public witness Andy Mason

the POAs and ORS presented testimony and exhibits after one public witness, Mr. Reid Delaney,[2] testified. Mr. Delaney testified that he owns property on which assets are located and utilized by DIUC for its regulated water and sewer business.

DIUC presented the testimony of: John F. Guastella[3] (direct and rebuttal testimony), President of Guastella Associates, LLC ("GA"), a utility management, valuation and rate consulting firm headquartered in Boston, Massachusetts; Gary C. White (direct), Vice President and Director of Accounting at GA; Eric Johanson (direct), DIUC Chief Operator; and the Honorable Maria Walls[4] (rebuttal), Beaufort County Treasurer. Mr. Guastella and Mr. White testified as a panel about the management and finances of DIUC. Mr. Johanson's testimony addressed the operations of DIUC. Mr. Johanson was excused from the hearing without appearing before the Commission after his testimony was accepted into the record without objection from the other parties. Ms. Walls provided testimony on property taxes.

The POAs presented two panels of witnesses. The first panel consisted of Paul Vogel[5] (direct), Haig Point Club and Community Association resident; Doug Egly[6] (direct), Chief Operating Officer of the Haig Point Association; and Tony Simonelli (direct), real estate broker on Daufuskie Island. The second panel consisted of Lynn M.

[2] Hearing Exhibit 4 is a survey provided by Mr Delaney
[3] Hearing Exhibit 7 consists of Guastella Direct Exhibits A and B Hearing Exhibit 8 consists of Guastella Rebuttal Exhibits 1 through 5. Hearing Exhibit 9 is the GA Management Agreement. Hearing Exhibit 10 consists of the ORS and POAs responses to DIUC's discovery requests.
[4] Hearing Exhibit 5 consists of Walls Rebuttal Exhibit A
[5] Hearing Exhibit 11 is Vogel Exhibit 1.
[6] Hearing Exhibit 12 is Egly Exhibit 1

Lanier[7] (direct) and Charles Loy[8] (direct and surrebuttal), Principals of GDS Associates, Inc., a utility consulting and engineering firm with its principal offices in Marietta, Georgia; and Harry Jue[9] (direct), water and sewer consultant with Hussey Gay Bell Engineering. POA witnesses Vogel, Egly, and Simonelli presented testimony illustrating the points of view of their respective organizations, and each providing various facts and opinions opposing DIUC's request. POA witness Loy provided testimony regarding accounting and rate base issues. POA witness Lanier provided testimony on the overall Application and incorporated Mr. Loy's recommended adjustments. Beach Field did not pre-file or present testimony or cross examine any witness at the Commission hearing.

ORS presented the testimony of Douglas H. Carlisle[10] (direct), ORS Economist; Ivana C. Gearheart[11] (direct), ORS Audit Manager; and Willie J. Morgan[12] (direct and surrebuttal), ORS Deputy Director for the Water and Wastewater Department. Dr. Carlisle's testimony included an analysis and recommendation for an ROE. Ms. Gearheart's direct testimony described ORS's examinations of the Application and DIUC's books and records, as well as the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Morgan's direct testimony focused on DIUC's compliance with Commission rules and regulations, ORS's business audit of DIUC's water and wastewater systems, test-year and proposed revenue, and performance bond requirements.

[7] Hearing Exhibit 14 consists of Lanier Exhibits 1 through 5. Exhibit 3 was revised at the hearing
[8] Hearing Exhibit 15 is Loy Surrebuttal Exhibit 1. Hearing Exhibit 16 is Loy Direct Appendix A.
[9] Hearing Exhibit 13 is Jue Exhibit 1.
[10] Hearing Exhibit 17 is Carlisle Direct Exhibits 1 through 10.
[11] Hearing Exhibit 18 is Gearheart Direct Exhibits 1 through 8.
[12] Hearing Exhibit 19 is Morgan Direct Exhibits 1 through 8 Hearing Exhibit 20 is Morgan Surrebuttal Exhibits 1 and 2.

On December 8, 2015, this Commission issued Order No. 2015-846 approving the Settlement between the POAs and ORS and accepting the adjustments to rates laid out therein.

On December 21, 2015, counsel for DIUC filed a Petition for Reconsideration and/or Rehearing with the Commission. According to the Petition for Reconsideration and/or Rehearing, if DIUC were forced to implement the rates as established by the Settlement Agreement, it would default on its loan obligations and its ability to provide service would be threatened.

On January 20, 2016, DIUC filed a Petition for Bond Approval in which it notified the Commission that, pursuant to S.C. Code Ann. § 58-5-240, DIUC intended to put its originally requested rates into effect under bond during the pendency of its appeals.[13]

On February 25, 2016, the Commission issued Order No. 2016-50 denying DIUC's Petition for Reconsideration and/or Rehearing. In that Order, the Commission stated that the evidence presented by ORS in the original hearing was competent and credible. Additionally, the only adjustment put forth to the Commission as part of the Settlement Agreement that was not an ORS adjustment was DIUC's original bad debt adjustment, for which DIUC provided support in its Application.

On March 1, 2016, the Commission approved the proposed surety and bond in the amount of $787,867, effective July 1, 2016, for a period of one year.[14]

[13] While the Commission Order denying DIUC's Petition for Reconsideration and/or Rehearing was not issued until February 25, 2016, the Commission issued a Directive denying DIUC's Petition for Reconsideration and/or Rehearing on January 13, 2016.

[14] Due to the length of the Appellate and remand process, a Joint Request was filed on June 15, 2017, by DIUC and the POAs that sought to extend DIUC's surety bond by an additional six months This Commission issued an Order on June 30, 2017, approving the joint request

On March 22, 2016, DIUC filed a Notice of Appeal with the Supreme Court in which DIUC appealed the decision and order of the Commission that approved the Settlement Agreement between the ORS and POAs.

On December 14, 2016, the Supreme Court held oral arguments between the Appellant, DIUC, and the Respondents, ORS and the POAs. On July 26, 2017, the Supreme Court issued its Order, reversing the Commission's Order and remanding the matter back to the Commission for a *de novo* hearing. In its opinion, the Supreme Court held that the Commission erred in approving and adopting the Settlement Agreement, and that DIUC is entitled to a new hearing in which the parties may present additional evidence. In addition, the Supreme Court gave guidance to the Commission on three matters: inclusion of the Elevated Tank Site in rate base, property tax expense, and bad debt expense.[15]

On August 11, 2017, the Supreme Court issued a remittitur, thereby remitting the matter back to the Commission.

On August 24, 2017, DIUC filed a Motion for Costs with the Supreme Court in which it sought attorney's fees and costs against Respondents in the amount of $60,382.37.[16]

[15] Despite the fact that this case was remanded to the Commission for a *de novo* hearing, the parties that participated in the rehearing primarily confined their testimony to previously unresolved issues and issues brought about by newly introduced evidence. Therefore, much of this Order's discussion on issues not litigated at the rehearing remains unchanged from the previous Commission Order.

[16] Of the $60,382.37, $53,726 is attributable to bond premiums for bonds obtained pursuant to S C Code Ann. § 58-5-240(D), while the remaining, $6,656.37 is attributable to Court fees, copy fees, and capped attorney's fees.

On November 15, 2017, the Supreme Court issued an Order on DIUC's Motion for Costs granting DIUC the amount of $6,656.37 to be recovered against ORS, Haig Point Club and Community Association, Inc., Bloody Point Property Owner's Association, and Beach Field Properties, LLC These costs were directed by the Supreme Court to be added to the remittitur. The Supreme Court's Order denied the $56,726 amount for bond premiums that DIUC sought. On December 29, 2017, the Supreme Court issued its Amended Order on DIUC's Motion for Costs. The only difference in the Amended Order is that it removed Beach Field Properties, LLC as a party responsible for costs and added Melrose Property Owner's Association, Inc. as a party responsible for costs. The Amended Order was issued pursuant to a consent motion filed by the parties with the Supreme Court.

On December 6 and 7, 2017, the Commission, with Chairman Swain E. Whitfield presiding, heard the rehearing on the matter of DIUC's Application beginning at 10:30 am at the Commission Hearing Room located at 101 Executive Center Drive in Columbia, South Carolina.

At the rehearing, DIUC was represented by G. Trenholm Walker, Esquire, and Thomas P. Gressette, Jr., Esquire. The POAs were represented by John J. Pringle, Jr., Esquire, and John F. Beach, Esquire. Again, Beach Field did not participate in the rehearing. ORS was represented by Jeffrey M. Nelson, Esquire, and Andrew M. Bateman, Esquire.

At the rehearing, DIUC presented the testimony of: John F. Guastella[17] (rehearing direct and rehearing rebuttal testimony) and Gary C. White[18] (rehearing direct and rehearing rebuttal). Mr. Guastella and Mr. White testified as a panel about the management and finances of DIUC.

The POAs also presented its two witnesses as a panel. The panel consisted of Lynn M. Lanier[19] (rehearing direct and rehearing surrebuttal) and Charles Loy[20] (rehearing direct and rehearing surrebuttal), Principals of GDS Associates, Inc., a utility consulting and engineering firm with its principal offices in Marietta, Georgia. POA witness Loy provided testimony regarding accounting and rate base issues. POA witness Lanier provided testimony on the overall Application and incorporated Mr. Loy's recommended adjustments.[21]

ORS presented the testimony of Douglas H. Carlisle (rehearing direct), ORS Economist; Daniel F. Sullivan[22] (rehearing direct and rehearing surrebuttal), ORS Deputy Director of Auditing; and Dawn M. Hipp[23] (rehearing direct and rehearing surrebuttal), ORS Director for the Utility Rates and Services Department. Dr. Carlisle's testimony adopted and reaffirmed the positions taken in his direct testimony and exhibits, which were filed on October 2, 2015, and his oral testimony given to the Commission on October 28,

[17] Rehearing Exhibit 1 consists of Guastella Direct and Rebuttal Exhibits.
[18] Rehearing Exhibit 3 consists of White Direct and Rebuttal Exhibits.
[19] Rehearing Exhibit 6 consists of Lanier Exhibits 1 through 7 corresponding to his rehearing direct testimony. Rehearing exhibit 7 consists of Lanier Exhibits Exhibit LML-8, corresponding to his rehearing surrebuttal testimony.
[20] Rehearing Exhibit 5 is Loy rehearing direct Exhibits 1 through 6.
[21] At the hearing, the Commission overruled a DIUC objection to the introduction of the POAs witnesses' testimonies and exhibits.
[22] Rehearing Exhibit 8 is Sullivan rehearing Direct Exhibits 1 through 9.
[23] Rehearing Exhibit 9 is Hipp rehearing Direct Exhibits 1 through 5. Rehearing Exhibit 10 is Hipp Surrebuttal Exhibit 1.

2015. Mr. Sullivan's rehearing direct testimony adopted the previously filed testimony of ORS witness Ivana C. Gearheart.

Additionally, Mr. Sullivan's testimony described ORS's examinations of the rehearing testimony and exhibits filed by DIUC in conjunction with the guidance provided by the Supreme Court in its Opinion No. 27729 and any accounting and pro forma adjustments recommended by ORS resulting therefrom.

Ms. Hipp's rehearing direct testimony adopted the direct testimony and exhibits of ORS witness Willie J. Morgan, and re-affirmed the positions taken by ORS witness Morgan during the hearing, with the exception of any changes made to comply with the guidance given by the Supreme Court. Additionally, Ms. Hipp presented ORS's findings and recommendations related to ORS's review of the rehearing testimony and exhibits filed by John Guastella and Gary White on behalf of DIUC and applicable discovery related to DIUC's rate case invoices, management fees, and requested deferral of $155,328. Ms. Hipp's rehearing surrebuttal testimony responded to DIUC witness John Guastella's rebuttal testimony. Specifically, Ms. Hipp addressed ORS's recommendation to remove certain rate case expenses, a 5 year amortization period for recovery of rate case expenses, ORS's analysis of management fees, and DIUC's assertions regarding Guastella and Associates.

II. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

Standards and Required Findings

DIUC's Application was filed pursuant to S.C. Code Ann. Sections 58-5-210 and 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A. In considering the

Application originally and on rehearing, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. Thus, the Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of DIUC to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for DIUC based on the record and any increase must be just and reasonable and free of undue discrimination. DIUC has also asked this Commission to establish revenues based on an authorized ROE which is established to allow DIUC the opportunity to earn a fair return.

After discussion of the positions of the parties, the Commission reaches the legal and factual conclusions below based on its review of the facts and evidence of record.

The evidence supporting the Company's business and legal status is contained in the Application filed by DIUC, testimony, and in prior Commission orders in the docket files of the Commission, of which the Commission takes judicial notice. This finding of fact is informational, procedural, and jurisdictional in nature, and the matters which it involves are not contested by any party.

Test Year[24]

With respect to the test year, DIUC utilized a historic test year – the twelve months ending December 31, 2014, with adjustments for 2015 expectations. ORS used the 2014 historical test year for two reasons: 1) because it was chosen by DIUC and 2) the underlying

[24]At the rehearing, the Test Year was not actively litigated. As a result, the evidence relied upon in this section was primarily obtained during the October 28, 2015, hearing.

transactions in the 2014 books could be tested to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Consistent with past practice and in accordance with generally accepted regulatory principles and prior Commission orders, ORS adjusted, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base. The POAs also utilized a 2014 historic test year with adjustments.

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's operating margin or, in this case, a return on rate base, and, consequently, the validity of the utility's requested rate increase. In order to determine what a utility's expense and revenues are for purposes of determining the reasonableness of a rate, one must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data. *See Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); *see also, Parker V. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984), *citing City of Pittsburgh v. Pennsylvania Public Utility Commission*,

187 P.A. Super. 341, 144 A.2d 648 (1958). Based on the information available to the Commission and that all parties agreed to a 2014 test year, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 2014, is appropriate for the purposes of this rate request.

Rate of Return on Rate Base[25]

DIUC requested that its rates be determined in accordance with the rate of return on rate base methodology. The determination of rate of return on rate base requires three components: 1) capital structure; 2) cost of debt; and 3) cost of equity (or return on equity). However, by statutory requirement, the Commission must also specify an allowable operating margin in all water and wastewater orders. Although the Commission must specify an operating margin in its order, this does not mean that the operating margin methodology must be used in determining a fair rate of return. *Heater of Seabrook* at p. 64 and 830. Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation." *Id.* No party actively contested the use of the rate of return on rate base methodology and given DIUC's large rate base, the Commission finds the rate of return on rate base methodology appropriate in this case.

[25]At the rehearing, the Rate of Return on Rate Base was not actively litigated. As a result, the evidence relied upon in this section was primarily obtained during the October 28, 2015, hearing

Capital Structure and Cost of Debt[26]

With respect to the capital structure, DIUC recommended a pro forma capital structure of 41.2% debt and 58.8% equity. During the October 28, 2015, hearing ORS witness Dr. Carlisle testified there are two concerns with the method DIUC used to calculate its capital structure: 1) DIUC included pro forma long-term debt in its long-term debt calculation; and 2) DIUC proposed an inflated equity amount. (October 28, 2015, Hearing Tr. p. 472, ll. 17-20). Dr. Carlisle noted that both result in an increase in the ROE. (Id.) The pro forma debt is based on the cost of debt DIUC expects, and as Dr. Carlisle noted, the outcome of DIUC's negotiations with banks or lenders is unknown at this time; therefore, DIUC's pro forma debt should not be included. (October 28, 2015, Hearing Tr. p. 473). The POAs also agreed that debt should not include future amounts. (October 28, 2015, Hearing Tr. p. 436, ll. 8-14). Dr. Carlisle further testified that DIUC's capital structure is weighted more heavily with equity, which is more expensive than debt. (Id.) In contrast to a projected or pro forma capital structure, ORS recommended a hypothetical capital structure of 46% long-term debt and 54% equity calculated by averaging the known capital structure used by water companies in the United States with publicly traded stock. (Id.) The POAs produced an adjusted capital structure of 57.55% debt and 42.45% equity (Hearing Exhibit 14, Amended Lanier Exhibit 3), based on a downward adjusted rate base, which is discussed later in this Order.

[26]At the rehearing, the Capital Structure and Cost of Debt was not actively litigated As a result, the evidence relied upon in this section was primarily obtained during the October 28, 2015, hearing.

As to the specific cost of debt rate, during the original hearing DIUC recommended 6.20%. The POAs testified that 6.20% is relatively high in the current interest rate environment, but is probably a reasonable rate given DIUC's precarious financial state. To calculate the 6.20% debt rate, DIUC included anticipated legal and GA fees in the financing fees. In support of the debt amount, Mr. Guastella testified that the debt he used is based on his knowledge of prior financing costs applied to the costs expected to be incurred for future refinancing. As a percentage of the total debt, the anticipated fees are 13.56% per ORS's calculations. ORS did not incorporate the additional fees into the debt rate because the fees are a large percentage of the total debt and did not originate from a lending institution. ORS recommended that the actual debt rate being paid by DIUC to the current lending institution, 5.29%, be used.

At the rehearing, Dr. Carlisle reaffirmed his previously recommended capital structure of 46% long-term debt and 54% equity. (Rehearing Tr. p. 433, ll. 1-2).

Upon consideration of evidence, the Commission adopts the capital structure, 46% long-term debt and 54% equity, and debt rate, 5.29%, recommended by ORS since they are based on known data instead of expected events. The Commission declines to use the POAs capital structure because it is based on a downward adjusted rate base (discussed in the Rate Base section below) that this Commission declines to use.

Cost of Equity/Return on Equity[27]

At the October 28, 2015 hearing, DIUC witness Guastella testified that the requested 10.5% ROE is based on his experience and judgment. The POAs witness Lanier testified, "This is the same rate the Company requested in its 2012 rate case[28], which was a specified rate, rather than a rate developed through justification of the ROE required to meet its needs for profit margin and to attract the needed debt capital." (October 28, 2015, Hearing Tr. p. 437, ll. 1-4). In contrast to DIUC, ORS's Dr. Carlisle recommended an ROE of 9.31% based on a range of 8.91% to 9.71% using results from the Discounted Cash Flow model ("DCF"), Capital Asset Pricing Method ("CAP-M") and the Comparable Earnings Model ("CEM"). (October 28, 2015, Hearing Tr. pp. 471 and 474). Dr. Carlisle testified the DCF and CAP-M are known and generally accepted methods for determining a recommended ROE. (Id.) The POAs testified that the DCF is the prevailing method used for determining appropriate ROEs. The POAs also testified that while the DCF and CAP-M are recognized as methods for calculating ROEs, the DCF and CAP-M provide challenges since there are not many publicly traded companies similar to DIUC. For his analyses, Dr. Carlisle examined data on companies with publicly traded stock of which more data is available, because DIUC requested rates based on rate of return. (October 28, 2015, Hearing Tr. p. 475). Companies with publicly traded stock yield more data than what is available for privately held companies. (Id.) Specifically, Dr. Carlisle testified that he used publicly traded companies classified as "water utilities" by Value Line or *Yahoo!*

[27]At the rehearing, the Cost of Equity/Return on Equity was not actively litigated. As a result, the evidence relied upon in this section was primarily obtained during the October 28, 2015, hearing
[28]The merits hearing for DIUC's last rate case in Docket No. 2011-229-WS was held in 2012.

Finance for his DCF and CAP-M since they are in the same line of business as DIUC and share similar risks. (Id.) For his CEM analysis, Dr. Carlisle used companies with comparable betas to those of the companies used in his DCF and CAP-M group. (Id.)

DIUC did not provide analyses similar to those used by Dr. Carlisle; however, Schedule A-3 of DIUC's Application shows the following references to ROE:

Connecticut DPUC Formula:		
Average Large Company		9.69%
Small Company Adder		0.50%
Performance Adder		0.50%
		10.69%
Florida PSC Leverage Graph Formula:		
5.6% + (2.279 / Equity Ratio)		= ROE
Range	100%	= 7.88%
	40%	= 11.30%
Equity Ratio	58.8%	= 9.47%

There is no discussion of these components in Schedule A-3 or testimony, with the exception of Mr. Guastella's rebuttal testimony containing the following single sentence, "Under the Connecticut Public Utilities Regulatory Authority formula for return on equity for small companies, the rate of return on equity for DIUC is 10.69%." ORS provided no testimony on either the Connecticut or Florida ROE formulas. The POAs could find no other reference to the Connecticut formula and challenged DIUC's portrayal of the Florida formula. Witness Lanier for the POAs testified, "[S]imply including a formula on a schedule and a calculated number is not sufficient rationale to support a ROE, particularly of 10.5%, when the company is requesting a revenue increase of over 100% in order to achieve such return." (October 28, 2015, Hearing Tr. p. 439, ll. 7-9). The POAs did not perform a DCF, CAP-M, or CEM analysis for determining a ROE and acknowledged Dr.

Carlisle as a source to support an appropriate ROE. In consideration of a lower rate base and based on various examples of DIUC's "irresponsibility in its operations since the rate increase authorized in 2012 and in the use of debt funds, in view of the critical need for cash," the POAs recommended an ROE in the range of 8.5% to 9.0% in pre-filed direct testimony. (October 28, 2015, Hearing Tr. p. 441, ll. 2-3).

In summary, at the October 28, 2015, hearing, DIUC requested an ROE of 10.5%; ORS recommended an ROE of 9.31% based on a range of 8.91% to 9.71%; and the POAs recommended an ROE in the range of 8.5% to 9.0%.

At the rehearing, Dr. Carlisle reaffirmed his previously recommended ROE of 9.31%. (Rehearing Tr. p. 430, l. 5).

Upon consideration of the various witnesses, the Commission adopts a rate of return on equity of 9.31% set forth in evidence as produced by ORS. ORS used the well-known and commonly-accepted DCF method, CAP-M, and CEM for developing a rate of return on equity of 9.31%, based on a range of 8.91% to 9.71%. Those methods, as applied by ORS, are grounded in sound analysis. While the POAs relied upon the testimony of Dr. Carlisle they recommended a ROE range falling below the low end of Dr. Carlisle's range. This Commission declines the range proposed by the POAs. The Commission finds DIUC's ROE recommendation lacking in support and analysis.

The fair rate of return on common equity which Daufuskie should be allowed the reasonable opportunity to earn is 9.31%, which is the rate of return adopted by the Commission for this proceeding. The capital structure and cost of capital which the

Commission has approved herein produce an overall rate of return of 7.46% for Daufuskie's water and wastewater operations as depicted in the following table:

Table A

Component of Capital Structure	Ratio	Embedded Cost/Rate	Overall Cost/Rate
Long Term Debt	46%	5.29%	2.43%
Common Equity	54%	9.31%	5.03%
	100%		7.46%

Rate Base

At the October 28, 2015, hearing, the rate base proposed by DIUC for combined operations was $7,085,475. [29] In support of its rate base, DIUC included several plant assets, particularly a 125,000 gallon elevated water storage tank, well and facilities (the "facilities") which are located on real property not owned by DIUC. Specifically, the facilities are located on real property (the "Site") that, as described below, was sold at a delinquent tax sale. DIUC does not dispute that it is not the owner of the Site. However, DIUC offered testimony and evidence that it owns these facilities, namely that 1) the tax sale did not include the storage tank, well and facilities, only the Site; 2) DIUC pays property taxes to Beaufort County for the facilities; 3) DIUC has the right to operate those facilities on any parcel of land in the Haig Point development; and 4) these facilities are

[29] See Application Schedule A-4; however the December 31, 2014 rate base total from Application Schedules W-B and S-B totals $6,914,024.

"used and useful" in providing water service. (October 28, 2015, Hearing Tr. p. 195 and pp. 82-83). DIUC offered the testimony of the Beaufort County Treasurer who stated the Company is paying a utility tax on water system infrastructure. (October 28, 2015, Hearing Tr. p. 83).

At the October 28, 2015, hearing, both ORS and the POAs excluded the facilities from rate base. ORS testified that DIUC did not provide enough information for ORS to determine whether or not DIUC is the owner of those facilities. (October 28, 2015, Hearing Tr. p. 502 and p. 517).

In its Opinion No. 27729, the Supreme Court stated that on remand, when the Commission recalculates DIUC's rate base, it should take into account DIUC's ownership of the water tank, well, pipes, and other utility equipment located on the property sold at a tax sale in October 2010 to Mamdouh Sabry Abdelrahman ("Elevated Tank Site").

In accordance with the guidance handed down by the Supreme Court, at the rehearing ORS added the water tank, pipes, and other utility equipment located on the Elevated Tank Site into DIUC's rate base.

At the October 28, 2015, hearing, with respect to the overall rate base, the POAs recommended that DIUC's as proposed rate base of $7,085,475 be reduced by $3,745,530 as a result of 1) increased accumulated depreciation, 2) contributions in aid of construction ("CIAC") and 3) CIAC amortization. (October 28, 2015, Hearing Tr. p. 371). Witness Loy for the POAs testified that Generally Accepted Accounting Principles ("GAAP") and appropriate regulatory accounting required that accumulated depreciation be calculated on a straight-line basis from the "in service" date through the end of the test year. (Id.) In

addition, Mr. Loy testified that an adjustment increasing accumulated depreciation "reflects the proper age and condition of the utility property." (Id.) At the October 28, 2015 hearing, the POAs witness Mr. Jue echoed Mr. Loy's conclusion, opining that the DIUC system "would be expected to reflect accumulated depreciation of approximately 30%." (October 28, 2015, Hearing Tr. p. 362).

Mr. Loy also testified that certain DIUC plant purchased from Haig Point Utility Company ("HPUC") should be classified as CIAC rather than invested plant. According to Mr. Loy, International Paper (the original owner of HPUC) and later Haig Point, Inc. ("HPI") treated the utility plant in HPUC as inventory, expensed those costs, and donated those assets to HPUC. (October 28, 2015, Hearing Tr. p. 380). As support for this conclusion, Mr. Loy testified that HPUC Water Annual Reports for the years 2000-2003 showed no plant balances at all. (October 28, 2015, Hearing Tr. p. 381). According to the witness, the failure to classify plant as CIAC requires adjustments to both net plant and CIAC amortization. Mr. Loy also testified that the appropriate characterization of DIUC plant as CIAC would greatly reduce the DIUC property tax burden, both for back taxes (a reduction of $402,108 for tax years 2011-2013) and in the test year (a reduction of $115,995 for tax year 2014). (October 28, 2015, Hearing Tr. p. 396).

In sum, at the October 28, 2015, hearing, the POAs recommended adjustments, largely to net utility plant, accumulated depreciation, contributions in aid of construction, and accumulated amortization to CIAC that would reduce the rate base for combined operations to $3,276,311.

At the rehearing, Witness Loy testified that DIUC's proposed rate base is overstated due to an erroneous $4.6 million accounting adjustment. (Rehearing Tr. p. 308, ll. 11-13). He further testified that a large portion of DIUC's utility plant was donated, and thus DIUC had no original cost to pay for that plant; therefore, it was improper for DIUC to claim the cost of the utility plant to its balance sheet as paid in capital. (Rehearing Tr. p. 309, ll. 19-22, p. 310, ll. 1-2).

Additionally, Witness Loy testified that DIUC significantly overstated net plant by under recording accumulated depreciation. (Rehearing Tr. p. 308, ll. 17-18). According to witness Loy, the net plant values of DIUC are artificially high because plant representing excess capacity has not been depreciated according to NARUC guidelines, which require straight-line depreciation over the useful life of the plant in service. (Rehearing Tr. p. 308, ll. 17-20).

With respect to the overall rate base, the POAs recommended as part of their evidence in the rehearing that DIUC's rate base as proposed be reduced to $2,304,944. This reduction resulted from a combination of 1) classifying donated plant as contributions in aid of construction ("CIAC") and 2) applying straight line depreciation to the Company's plant investment, thereby increasing accumulated depreciation and reducing net plant. See LML-R3, Schedule C-2, Rehearing Exhibit 6. (In addition, the POAs also pointed out that simply applying straight-line depreciation to the Company's plant causes an increase in accumulated depreciation and a corresponding decrease in net plant. This adjustment alone, according to the POAs, reduces combined rate base to $4,613,231. See Exhibit LML-R8, Schedule C-2, Rehearing Exhibit 7.)

DIUC witness Guastella testified at the rehearing that the Company's accounting methodology has been relied upon by DIUC and other parties in the past, and that, in previous rate cases, the balance sheets have been determined to accurately reflect the books and records. (Rehearing Tr. pp. 102-103). According to witness Gaustella, there is no violation of the NARUC Chart of Accounts concerning how the utility reflected the actual cost of the utility and actual financial structuring of the utility, based on what typically happens with newly formed, developer-related utilities. (Rehearing Tr. p. 49). Guastella explains that in establishing a developer owned utility all of the construction costs and utility assets that had to be paid for by the developer are turned over to the utility in the form of an equity investment in the utility. (Rehearing Tr. p. 50). Guastella further explains that when an equity investment is made in a utility, it is not made in the form of a donation. (Rehearing Tr. p 51). Witness Guastella's arguments are supported by the NARUC Chart of Accounts, Accounting Instruction 18, which states that all amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service.

The record in this case shows that International Paper (IP) was the developer of a residential golf community named Haig Point at Daufuskie Island, S.C. and that the net book value of their investment in the Haig Point development of $13 million at June 30, 1997, was considered permanently impaired and written down to zero in its 1999 SEC Form 10-K. (Rehearing Tr. pp. 315-316.) According to witness Loy's testimony, at the time of IP's 1999 Securities Exchange Commission (SEC) filing, IP still owned Haig Point, Inc., whose assets continued to include the stock and plant of Haig Point Utility Company

(now renamed DIUC) (Rehearing Tr. p. 315.). The record shows that IP formed Haig Point Utility Company (now DIUC), and was therefore the first entity to devote its investment in utility plant and equipment to public service. It is irrelevant that IP wrote off its investment for SEC reporting purposes because the amounts in the books and records of the utility for ratemaking purposes may be different than the amounts reported to other agencies such as the SEC. The ORS has determined the correct amount of contributions in aid of construction for this case.

Witness White testified concerning utilization factors and provided an explanation of the utilization factor analysis. According to witness White, the utilization percentage is based on the number of active connections as a percentage of all potential connections for the system and has the effect of decreasing the depreciation rate and depreciation expense charged to the current customer. Therefore, current customers are only paying their fair share of depreciation expense. (Rehearing Tr. p. 120.) According to White, it is not a used and useful study that would determine the utilization of plant facilities. Those numbers do not indicate how much of the system is used and useful. (Rehearing Tr. p. 121). On cross examination, witness White explained that utilization factors are merely the percentage of customers currently connected to the system, versus the number of customers that could be connected to the system. (Rehearing Tr. p. 221.) Witness White further explained that availability fees are charged to customers to cover their cost of having facilities available. (Id.) Such fees are included as revenue in this case.

In contrast to the position taken by the POAs[30], ORS carried forward the amount of rate base from the last rate case in Docket No. 2011-229-WS, $4,615,755, and made adjustments through December 31, 2014[31]. (October 28, 2015, Hearing Tr. p. 524). Using DIUC's utilization factor method with ORS's adjustments, and taking into account the Supreme Court guidance, ORS recommended that $1,134,068 be deducted from the Company's December 31, 2014 Application rate base. (Rehearing Tr. p. 445-446, ORS Audit Exhibit DFS-1, Rehearing Exhibit 8). Of the amount deducted, $699,361 is gross plant in service representing non-allowable plant, adjustments from the previous case not carried forward by DIUC in this Application, and asset retirements. (Id.) ORS Audit Exhibit DFS-5 (Rehearing Exhibit 8) shows the specific items composing the $699,361. (Rehearing Tr. p. 453, ORS Audit Exhibit DFS-5, Rehearing Exhibit 8). ORS adjustments also deducted $180,067 from rate base for accumulated depreciation and deducted $254,853 from rate base for Construction Work in Progress ("CWIP"). (Rehearing Tr. p. 445-446, ORS Audit Exhibit DFS-1, Rehearing Exhibit 8). Accumulated amortization of CIAC added $213 to the rate base to arrive at a total net rate base deduction of $1,134,068. (Id.) When $87,676 in working capital was added to rate base, the total net rate base reduction became $1,046,392. (Id.) After deducting the rate base adjustment from the Application Schedules W-B and S-B December 31, 2014, per books rate base of $6,914,024, ORS's recommended rate base for combined operations was $5,867,632. (Id.)

[30] At the rehearing, ORS testified that while it found the POA methodology to be reasonable, it chose to follow the same carryforward method it utilized at the October 28, 2015 hearing, and in past rate cases

[31] For the carryforward amount, ORS used the rate base it calculated in the prior rate case instead of using the settlement agreement rate base in Docket No. 2011-229-WS.

In summary, on rehearing, DIUC's recommended adjusted rate base was $7,085,475, the POAs' was $2,304,944, and ORS's was $5,867,632.

The POAs' arguments have some merit. However, considering the discussion above, the Commission declines to adopt a different rate base than the one carried forward from the last rate case by ORS, with some adjustments. The determination of rate base for this case is largely driven by the Applicant's need for an expedited evaluation of its case on remand, and the fact is that the burden was on intervenors to present a defensible alternative rate base proposal. While we do not believe that burden was met in this case, we do not preclude parties from proposing a different rate base in future rate proceedings, which they would be free to do in any event. This Commission may not rely solely on past practice in making its findings. See Porter v. S.C.P.S.C. and BellSouth Telecommunications, Inc., 333 S.C. 12, 507 S.E. 2d 328 (1998).

After reviewing the evidence presented by DIUC, ORS, and the POAs, the Commission accepts the rate base determination methodology and adjustments proposed by ORS. The ORS methodology accounts for the guidance given by the Supreme Court and is logical in its steps, and sets forth sound methods for determining a proper rate base on which a return may be granted.

The Commission hereby adopts the following as the Company's rate base for purposes of this proceeding:

Table B

Approved Rate Base

	$
Gross Plant in Service	7,265,018
Less: Accumulated Depreciation	(970,091)
Net Plant in Service	6,294,927
Construction Work in Progress	0
Cash Working Capital	171,348
Contributions in Aid of Construction	(590,813)
Total Rate Base	5,875,462

Property Taxes

Since the last DIUC rate case in 2011, all parties agree that DIUC has property tax issues. DIUC did not pay 2009 and 2010 property taxes when due. As discussed above, DIUC's property was subject to a delinquent tax sale as a result. DIUC testified that Beaufort County mailed the tax bills to the wrong address. In addition, the Company's 2012, 2013, and 2014 Beaufort County property taxes were significantly higher than what they had been in years prior. At issue among the parties is how much property taxes should be paid by the ratepayers.

After learning about the delinquent taxes, DIUC and the Beaufort County Treasurer entered into a settlement agreement that was entered into evidence. The settlement agreement allowed DIUC to pay Beaufort County monthly payments of $5,487.95 to cover property taxes totaling $526,843.39 for 2012, 2013, 2014, and 2015. The Beaufort County Treasurer testified that the monthly payment was derived by amortizing the $526,843.39 over eight years. Originally the amount was $651,267.27, but the settlement agreement was amended to the reduced amount of $526,843.39 after the SC Department of Revenue ("DOR") submitted lower asset values to Beaufort County.

With respect to its property tax request in this case, DIUC requested additional annual property tax expense of $65,856 for the 2012, 2013, 2014 and 2015 taxes and $188,092 for the annual amount of taxes going forward. DIUC's property tax expense request totaled $258,158 ($4,210 per books plus $65,856 plus $188,092).

At the October 28, 2015, hearing, the POAs recommended that DIUC's tax expense be based on the POAs' downward-adjusted rate base. ORS testified that DIUC's current books reflected approximately $4,000 annually for property taxes and, with the ORS adjustments, DIUC would have $171,492 annually to pay property taxes. Specifically, ORS recommended that DIUC receive $30,612 annually for the 2012 and 2013 taxes totaling $244,899 amortized over 8 years and $140,880 for the 2014 or test year taxes. ORS based its 2012 and 2013 adjustment amount and amortization period on DIUC's settlement with Beaufort County. The 2014 adjustment was based on the actual tax bills/assessment. ORS witness Gearheart testified that ORS allowed amounts for the 2012 and 2013 taxes, because DIUC did not have an opportunity to request a rate increase to pay

the taxes after agreeing to a moratorium through July 1, 2014, in the settlement in Docket No. 2011-229-WS. ORS declined to allow property taxes for 2015 since ORS utilizes a historical test year.

In its Opinion No. 27729, the Supreme Court stated that an annual bill of $65,856 is a substantial expense for which the Commission should have adjusted the test year data.

As a result of the guidance given by the Supreme Court, ORS computed an adjustment to amortization expense for property taxes of $526,848 amortized over eight (8) years for an annual amortization of property taxes of $65,856. (Rehearing Tr. p. 450, ll. 15-19). DIUC did not disagree with this approach taken by ORS and the resulting adjustment recommended by ORS. (Rehearing Tr. p. 450, ll. 18-19).

Additionally, based on guidance from the Supreme Court, ORS computed an adjustment to property taxes to reflect calendar year 2015 level. (Rehearing Tr. p. 451, ll. 1-5). Calendar year 2015 property taxes amounted to $192,302 less the per book amount of $4,210, for an adjustment to $188,092. (Id.) DIUC agrees with this adjustment in its rehearing testimony and exhibits. (Rehearing Tr. p. 451, ll. 4-5).

Based on the evidence in the record and the guidance given by the Supreme Court, the Commission adopts the property tax amounts as computed by ORS as they are based on known and measurable amounts and incorporate the guidance given by the Supreme Court.

Management Fees

In its Application, DIUC requested $171,365 for outside management services. As previously stated herein, DIUC has a contract with Guastella Associates LLC ("GA") for

management services which was entered into evidence. *See* October 28, 2015, Hearing Tr. Hearing Exhibit 9. GA provides management, valuation, and rate consulting services to water and wastewater utilities around the country, and has been the contract manager of DIUC (and its predecessors) since July 9, 2008. The most recent management agreement dated June 18, 2015, states, and DIUC witness Guastella confirmed in testimony, that DIUC pays GA a management fee of $13,596.85 per month with an annual 3.5% increase. (Id.)

The $171,365 for management fees included in the Application reflect charges under the agreement between GA and DIUC and its owners. That agreement spells out GA's responsibilities and duties, and has provisions for fees and charges, including day-to-day management, finance, capital, and incentive fees. *See* Id.

In accordance with the management agreement, GA's scope of services include:

1. Supervise the day to day operation and maintenance of the Company's system, including supervision of operating employees, vendors and contractors.
2. Maintain books and records, including accounting, financial and operation records, in accordance with the uniform system of accounts prescribed by the PSC and required by the DHEC.
3. Perform all billing, accounting and collecting (other than commencing litigation), including the preparation of customer account records and billing analyses as necessary for rate filing requirements.
4. Prepare financial and operating reports to regulatory agencies, including annual reports to the PSC and monthly operating reports to DHEC. Prepare annual budgets and financial reports to stockholders, as well as periodic (quarterly) financial and operating reports.
5. Provide information and assistance to outside tax accountants, consultants, engineers and attorneys as required in the normal course of business.
6. Obtain short and long term financing, as available and necessary, for operations and capital improvements and prepare the necessary

documentation for lenders.

7. Employ and supervise all employees, vendors, contractors and outside professionals as appropriate to operate, maintain and expand the Company's system, to direct and supervise all plant expansion, capital improvements and replacements, and to carry out all other services required of GA under this Agreement.
8. Implement existing contracts with developers and customers, and negotiate and implement new contracts and applications for service.
9. Revise and maintain general tariff provisions as to rates and terms of service, in compliance with changes approved by the PSC.
10. Be responsible for and carry out all other business incidental to the ordinary course of business management and operation of the Company.

See Id.

ORS proposed to reduce the management fee to $132,211, a level that it asserts the Commission previously approved.[32] At the original hearing, ORS witness Gearheart asserted that the management services provided by GA did not increase from 2011. She testified, "During the review, ORS did not find that the management services provided by Guastella and Associates ("GA") increased and did not find the requested increase justifiable." *See* October 28, 2015, Hearing Tr. p. 493. This assertion does not consider that the specific term of the management agreement requires an annual increase of 3.5% per year and does not take into account any amount for inflation. *See* Id.at page 5 ("The Management Fee shall increase annually beginning on January 1 of each year this Agreement is in effect by ... 3.5%.").

Neither ORS nor Intervenors presented any performance analysis or any review of the events and issues faced by DIUC since it was acquired from Haig Point, Inc. in 2008.

[32] The Commission did approve a settlement in DIUC's 2011 rate case, but the settlement does not make any reference to the management fee.

The Company, on the other hand, provided the Commission with a comprehensive Report on Capital Improvements that includes information regarding the various problems faced by the Company and how those problems were addressed by GA pursuant to its management agreement. *See* Id. In the original hearing, neither ORS nor Intervenors performed any analysis to evaluate whether the GA's management fees are competitive or whether DIUC could have obtained management with the same level of expertise as provided by GA at a lower cost. On the other hand, the record provides the following, *inter alia,* as obtained from Mr. Guastella's testimony and exhibits from October 28, 2015, regarding the work of GA for DIUC:

- The hiring of GA was required in the settlement with an intervenor for the purchase of the stock of HPUC from Haig Point, Inc. to assure that DIUC would have competent management. *See* Hearing Transcript at 213.

- GA directed the transition for the HPUC acquisition as well as the merger of MUC, improving records, billing and operations. *See* Hearing Transcript, Hearing Exhibit 7.

- GA managed the operations despite an immediate 25% annual shortfall of revenues because of MUC's failure to pay its share of the jointly owned wastewater treatment plant. *See* Hearing Transcript, Hearing Exhibit 7.

- GA directed the operation of MUC, when its owners abandoned the utility operations and filed for bankruptcy in order protect the MUC's customers from interruption of water and sewer service, without compensation and despite DIUC's cash shortage. *See* Hearing Transcript at 214.

- GA undertook an extensive effort over about a three year period trying to obtain financing, including about 15 months after the 2012 rate increase. *See* Hearing Transcript at 220.

- GA worked with the president of DIUC to use his contracting firm to make temporary repairs to the failed wastewater lagoon liner, when

there were insufficient funds to pay for the improvements. *See* Hearing Transcript, Hearing Exhibit 7.

- GA saved DIUC and its customers over $350,000 in property taxes and another $100,000 in present value savings related to the 8 year payment agreement. *See* Hearing Transcript at 213 and Hearing Exhibit 7.

In the original proceeding, the POAs opposed the requested management fees; however, they have not proposed a specific dollar adjustment for management fees. Mr. Lanier did state that he "would support any reductions in expenses proposed by the ORS staff," however, this statement was made without providing any rationale, standard, or benchmark for any such reduction. *See* October 28, 2015 Hearing Tr. p. 435.

ORS witness Hipp raised the issue of checks and balances in the GA management agreement. In her rehearing testimony, Ms. Hipp states: "In addition, it is ORS's position that the management agreement lacks sufficient checks and balances to protect DIUC, its parent company and its ratepayers from decisions made by its vendor, GA." (Rehearing Tr. pp. 477-478.) Ms. Hipp then goes on to cite the tax sale of the Elevated Tank Site, which DIUC continues to assert did not occur due to any fault of the utility or its management. This "checks and balances" argument is not persuasive. The ultimate check is the utility's right to terminate the Management Agreement for cause if GA has failed to perform and to cure any deficiency in performance.

Ms. Hipp also presented Rehearing Exhibit DMH-5, which she asserted "indicates the dollar amount of management fees requested by DIUC are in excess of what other similarly situated investor-owned water and wastewater utilities pay for similar services." (Rehearing Tr. p.478.) However, if this Commission is to make a comparison between utilities for the basis of a ratemaking decision, the party proposing the comparison must

provide enough facts for this Commission to prepare an order that is "sufficiently detailed to enable the reviewing court to determine whether the findings are supported by the evidence and whether the law has been properly applied to those findings." *Heater of Seabrook, Inc. v. Pub. Serv. Commn. of S.C.*, 503 S.E.2d 739, 742 (S.C. 1998) citing *Able Communications, Inc. v. South Carolina PSC,* 290 S.C. 409, 411, 351 S.E.2d 151, 152 (1986).

ORS made no attempt to analyze the management services that GA has provided versus those provided by the management of Harbor Island Utility ("HIU") or Kiawah Island Utility ("KIU"). Further, ORS did not show that DIUC is substantially similar to HIU and KIU, nor that the services provided under their management agreements are substantially similar to those of GA, nor that the challenges and conditions of the three utilities are substantially similar. Mr. Guastella's rehearing rebuttal testimony regarding the differences between DIUC and HIU and KIU is persuasive. First, Mr. Guastella notes that HIU and KIU are not comparable to DIUC "just because they both provide water and wastewater service and are regulated by this Commission." (Rehearing Tr. p. 16.) He then goes on to provide the following analysis:

- HIU only has about one-tenth of the cost of DIUC's utility assets, it has no wells, no water treatment plant, and it is accessible by roadway-bridge.
- KIU has no source wells, no treatment plant, and only one wastewater plant, compared to DIUC's operation of 7 wells outfitted with water treatment and pumping as well as ongoing operation by DIUC of two wastewater treatment plants.
- KIU has about ten times more customers than DIUC over which to spread costs.

- KIU's management fees are not limited to the $365,095 shown in Rehearing Exhibit DMH-5. That $365,095 amount is the amount affiliated corporations allocate to KIU, but day-to-day management of KIU is also provided by its direct, full-time employees. Those employee costs are not included in the amount Ms. Hipp is attempting to compare.

(Rehearing Tr. pp. 97-98.

Mr. Guastella's testimony and exhibits as to GA's qualifications and performance in managing DIUC are persuasive. We also acknowledge the unique location of this utility and the impact that has upon the costs of doing business, as explained by Mr. Guastella in his original testimony and during the rehearing.

The Commission finds the requested amount of $171,365 to be reasonable and justified.

Rate Case Expenses[33]

At the rehearing, DIUC requested $794,210 for current and unamortized rate case expenses to be recovered over 3 years. (Rehearing Tr. p. 473, ll. 15-17). ORS proposed that rate case expenses total $272,382 and be amortized over five years. (Rehearing Tr. p. 474, ll. 18-22, p. 476, ll. 21-22, p. 477, ll. 1-2). The $272,382 consists of capped current rate case expenses in the amount of $75,000 for GA's preparation of the Application[34], developing rate models, calculating test year data, filing other rate case documents and legal expenses. (Rehearing Tr. p. 450, ll. 8-14). ORS recommended $75,000 as a

[33] Rate Case expenses were not specifically mentioned in South Carolina Supreme Court Opinion No. 27729; however, in keeping with the Court's Opinion, DIUC introduced new evidence that altered its original Rate Case expense request. As a result, this issue was litigated at the rehearing.

[34] The $75,000 is a figure that was used in the previous hearing and was arrived at during settlement negotiations between the ORS and POAs.

reasonable amount for rate case expenses in the last rate case. Additionally, $22,500 of the $272,382 is unamortized rate case expenses from the previous rate case. The remaining amount is accounted for by legal services. (Id.)

At the rehearing ORS testified regarding a number of adjustments to rate case expenses that were not contested by DIUC. (Rehearing Tr. p. 86, ll. 4-7). The one rate case expense adjustment DIUC did contest at the hearing was ORS's adjustment of $542,978, which corresponded to GA invoices. (Rehearing Tr. p. 476, l. 11). According to ORS witness Hipp, GA invoices contained mathematical errors, lacked sufficient detail, and/or did not appear to be paid. (Rehearing Tr. p. 476, ll. 11-18). ORS witness Hipp testified that, when reviewing invoices, ORS checks for mathematical accuracy, whether the invoice is for a valid business purpose, whether the expense was incurred during the period under review, whether the invoice was properly recorded on the books and records of the Company, and whether the invoice was paid. (Id.) ORS testified that generally the GA invoices failed this criteria, and also offered specific examples. (Rehearing Tr. p. 476, ll. 11-18, ORS DMH Surrebuttal Exhibit 1, Rehearing Exhibit 10). During her testimony ORS witness Hipp specifically cited a number of examples of invoices that were insufficient for reasons varying from lack of detailed description of work performed to mathematical errors. (ORS DMH Surrebuttal Exhibit 1, Rehearing Exhibit 10). Additionally, ORS witness Hipp attached an exhibit detailing the problems with each invoice for which ORS recommended an adjustment. (Id.) Furthermore, ORS witness Hipp testified that, on August 24, 2015, ORS discussed certain GA invoice deficiencies at an exit conference held with the Company. (Rehearing Tr. p. 486, l. 22, p. 487, ll. 1-3).

Finally, ORS witness Hipp testified that it is not the role of ORS to properly support the rate case of a company seeking a rate increase, and it was DIUC that failed to provide additional support for the work performed by GA. (Rehearing Tr. p. 487, ll. 4-9).

DIUC's witness Guastella testified that DIUC is seeking $794,201.17, plus the $60,781.56 incurred for the bonds and associated letter of credit, for rate case expenses. (Rehearing Tr. p. 76, ll. 8-12). According to DIUC witness Guastella, no regulatory agency has ever raised any questions about the amount of detail in GA's invoices. (Rehearing Tr. p. 87, ll. 16-17). Additionally, he testified that, without any notice, ORS suddenly declared GA's invoicing insufficient. (Rehearing Tr. p. 88, ll. 9-10). DIUC witness Guastella also testified that delayed payments which create accounts payable does not mean that costs incurred are not allowable for rate setting purposes. (Rehearing Tr. p. 89, ll. 19-21).

At the rehearing DIUC requested a 3 year amortization period for rate case expenses. (Rehearing Tr. p. 92, ll. 7-23). ORS affirmed its position that a 5 year amortization period is a reasonable balance between the shareholders and ratepayers for this proceeding. (Rehearing Tr. p. 476, ll. 21-22, p. 477, ll. 1-2). DIUC witness Guastella testified at the rehearing that a 5 year amortization period would mean that actual rate case expenses would not be fully recovered until January 2023. (Rehearing Tr. p. 92, ll. 20-21). ORS witness Hipp testified that the rate case amortization period should begin on July 1, 2016, which is the same date that DIUC chose to implement higher rates under bond. (Rehearing Tr. p. 490, ll. 13-18).

The Commission agrees with ORS that a rate case expense total of $272,382 is a reasonable amount for this rate case. The evidence shows that a large sum of what DIUC

seeks was based on invoices that could not be verified. It is the responsibility of the regulated utility – not the Commission, ORS, or any other party – to support the operating expenses that contribute to the utility's revenue requirements. We cannot presume that the expenses a utility proposes to recover in its rates and charges are legitimate if they cannot be subjected to the scrutiny of an audit or examination. Porter v. SCPSC, 333 S.C. 12, 507 S.E. 2d 328 (1998). Moreover, the fact that no other regulatory agency has questioned the level of detail in GA's invoices cannot serve to cure the deficiencies that the evidence here reveals.

However, we will allow the Company to request approval of these expenses in its next rate case, if it can provide supporting information for its invoices that satisfy the criteria listed by ORS witness Hipp presented at the rehearing.

We disagree with the ORS proposal for a five (5) year amortization period of rate case expenses, since full recovery of rate case expenses would not occur until January 2023 under this schedule. We agree with the Company that a three (3) year amortization period provides a more reasonable recovery period. DIUC has been filing Applications for rate relief at approximately three-year intervals. (Rehearing Tr. p. 92, ll. 7-12) We do agree with ORS that the inclusion of unamortized rate case expenses from the last case is reasonable. See *Porter v. S.C.P.S.C and Carolina Water Service*, 328 S.C. 222, 493 S.E. 2d 92 (1997).

Bad Debt Expense

In its Application, DIUC proposed bad debt expense associated with its proposed increase in revenues to equal $30,852. Initially, ORS provided testimony proposing to

adjust the bad debt expense upward to $213,732. (October 28, 2015, Hearing Tr. p. 498). In the Settlement Agreement between the ORS and the POAs, and consistent with DIUC's request in its Application, ORS revised its adjustment to bad debt expense to utilize the methodology proposed by DIUC in its Application. (October 28, 2015, Hearing Tr. pp. 502-503). When discussing the bad debt expense, the Supreme Court stated that the evidence in the record establishes DIUC's bad debt expense to exceed $100,000. In compliance with the Supreme Court's guidance, ORS applied its calculated bad debt percentage of 9.82% to DIUC's rehearing proposed increase to calculate an adjustment to bad debt expense of $116,056, for a total bad debt expense of $221,439. (Rehearing Tr. p. 453, ll. 16-20). Without expounding any further on the topic, DIUC witness Guastella stated that he disagreed with ORS adjustment to the bad debt expense. (Rehearing Tr. p. 84, l. 8).

The POAs' witness Lanier testified that ORS's evaluation of bad debts at the rehearing failed to fully analyze the Company's actual test year bad debt expense and failed to consider the prudency of the amount of $105,667. (Rehearing Tr. p. 370, ll. 16-19). Therefore, witness Lanier proposes exactly what the Company included in its Application, 0.5% on water and sewer rate revenues and 2.5% on water and sewer availability revenues. (Rehearing Tr. p. 371, ll. 4-8).

We conclude the bad debt expense methodology performed by ORS, and the resultant bad debt percentage of approximately 9.82% by which to adjust the bad debt expense, is just and reasonable, reflects the actual bad debt expense incurred by DIUC, and complies with guidance handed down by the Supreme Court. This Commission hereby

adopts the ORS as adjusted bad debts amount of $105,384. Applying the 9.82% bad debts percentage to the approved revenue increase of $950,166 results in total bad debts expense of $198,690.

Deferral of $155,328 for Future Rate Recognition

DIUC seeks to have a deferral of $155,328 for future rate recognition. (Rehearing Tr. p. 80, ll. 8-12). ORS testified that it believes that, to the extent DIUC has incurred recoverable rate case expenses, those expenses should be recovered in the case presently before the Commission. (Hipp Rehearing Revised p. 9, ll. 1-10). DIUC testified that the $155,328 is the amount in excess of the 108.9% increase DIUC originally requested in its Application, and its recovery is necessary to make DIUC whole and delay a portion of the rate increase to the customers. (Rehearing Tr. p. 101, ll. 13-15).

The Commission concludes that the expenses properly incurred should be recoverable in the present case, to the extent allowable. Therefore, the Commission does not believe that $155,328 should be deferred to a future rate case.

Customer Growth

The ORS proposed to adjust for customer growth after the proposed increase. The Commission agrees with the ORS that the effects of customer growth should be recognized. The effect on the operating results approved herein is $1,529 using a composite growth rate of 0.35% applied to positive net operating income. The composite growth rate was determined by dividing the ORS recommended combined customer growth after the proposed increase of $2,137 by the combined net operating income of $614,109 contained on Revised Rehearing Audit Exhibit DFS-1

Performance Bond

DIUC is currently providing the maximum amount required for its performance bond in the amount of $350,000 for water and $350,000 for sewer operations. Using the criteria set forth in 10 S.C. Code Ann. Regs. 103-512.3.1 and 103-712.3.1, ORS recommended that DIUC be required to continue the current performance bond amounts. DIUC and the POAs did not challenge the performance bond amounts. Accordingly and pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, the Commission requires that DIUC maintain its performance bond in the amount of $350,000 for water and $350,000 for sewer operations.

Other Adjustments

Although adjustments must be made to a number of items, as fallout adjustments under this Order, including cash working capital, the remaining ORS adjustments are accepted by this Commission without discussion. They either were not disputed by the parties or were caused by carrying out the effects of the adjustments adopted above.

Income Taxes

We take judicial notice of the fact that a 34% Federal Tax rate was applicable at the time of the rehearing in this matter. However, we would refer the Company to our requirements established under Docket No. 2017-381-A to determine a possible revision in the rate on a going forward basis.

The following table reflects Daufuskie's revenue and expenses after accounting and pro forma adjustments under presently approved rates for the test year:

Table C

Total Operating Revenue	$1,073,577
Total Operating Expenses	1,310,664
Total Operating Income (loss)	(237,087)
Customer Growth	0
Net Income (loss)	$(237,087)

Note: Interest Expense for Operating Margin purposes is $142,973.

The following table illustrates the effect after accounting and pro forma adjustments and rates approved in this Order:

Table D

Total Operating Revenue	$2,023,743
Total Operating Expenses	1,586,921
Total Operating Income (loss)	436,822
Customer Growth	1,529
Net Income (loss)	$438,351

Note: Interest Expense for Operating Margin purposes is $142,973.

Refunds

DIUC placed its originally requested rates into effect under bond while its rate case was on appeal, as allowed under S.C. Code Ann. Section 58-5-240 (2015). Since this Order results in less additional revenue than would have resulted under approval of the originally requested rates in this case, refunds to the DIUC's customers are in order, pursuant to the terms of the same statute. The Company must refund to its customers the difference between the amount of additional revenue allowed by this Order, and the full amount of additional revenue originally requested by the Company, along with 12% interest. These amounts must be calculated from the date that the Company placed its originally requested rates into effect under bond.

III. FINDINGS OF FACT

1. DIUC is a water and sewer utility providing water and sewer service in its assigned service area on Daufuskie Island, Beaufort County, South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Ann. § 58-5-210, *et. seq.* DIUC's operations in South Carolina are subject to the jurisdiction of the Commission.

2. DIUC requested in its Application to increase revenues for combined operations by $1,182,301, consisting of a water revenue increase of $590,454, and a sewer revenue increase of $591,847, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a 2014 historical test year. At the rehearing, DIUC re-affirmed that it sought the Application's originally proposed revenue requirement of $2,267,721.

3. The appropriate test year period for this proceeding, selected by the Company, is January 1, 2014, through December 31, 2014.

4. The Commission will use the return on rate base methodology in determining and fixing just and reasonable rates.

5. The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or return on equity).

6. The Commission adopts the capital structure of 46% long-term debt and 54% equity; a cost of debt rate of 5.29%; and ROE of 9.31%. The approved return on rate base is 7.46%.

7. The Commission sets DIUC's rate base at $5,875,462

8. The Commission-approved revenues and expenses establish a fair and reasonable operating margin of 14.60%. S.C. Code Ann. § 58-5-240(H).

9. For certain rate case expenses, DIUC failed to provide invoices that could be verified; as a result, DIUC is ineligible for cost recovery of those expenses at this time. However, the Company may reapply for recognition of these expenses in its next rate case, if its invoices meet the criteria established by ORS.

10. A three (3) year amortization period for rate case expenses is a reasonable balance between DIUC's shareholders and the ratepayers. Additionally, the amortization period began running on the date which DIUC first implemented its higher rates.

11. A bad debt percentage of 9.82% applied to the revenue requirements approved herein is a reasonable and appropriate manner of calculating DIUC's bad debts.

12. The deferral of $155,328 is not appropriate where it could reasonably be recovered in a future rate case.

13. Refunds must be made to DIUC's customers, consisting of the difference between the amount of additional revenue allowed by this Order and the full amount originally requested by the Company, together with 12% interest. These amounts must be calculated from the date the Company placed its originally requested rates into effect under bond.

IV. CONCLUSIONS OF LAW

Based upon the Discussion, Findings of Fact as set forth herein, and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. DIUC is a public utility as defined in S.C. Code Ann. § 58-5-10(3) and as such is subject to the jurisdiction of this Commission.

2. The appropriate test year on which to set rates for DIUC is the twelve month period ending December 31, 2014.

3. Based on the information provided by the parties, the Commission concludes the appropriate rate setting methodology to use as a guide in determining the lawfulness of DIUC's proposed rates and for the fixing of just and reasonable rates is return on rate base.

4. In order for DIUC to have the opportunity to earn the 9.31% ROE, which is found fair and reasonable herein, DIUC must be allowed additional revenues of $950,166.

5. The Commission sets the amount to be recovered for management fees at $171,365.

6. The Commission concludes that the appropriate amount to be recovered for rate case expenses is $272,382.

7. The Commission concludes that the appropriate amortization period to recover rate case expenses is 3 years.

8. The Commission concludes that the appropriate bad debt expense adjustment is 9.82% of the revenue requirement.

9. The Commission concludes that DIUC cannot defer the $155,328 requested for future rate recognition.

10. Pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, DIUC shall post a performance bond of $350,000 for water and $350,000 for sewer operations.

11. Pursuant to S.C. Code Ann. § 58-5-240(D), "[a]ll increases in rates put into effect under the provisions of this section which are not approved and for which a refund is required shall bear interest at a rate of twelve percent per annum. The interest shall commence on the date the disallowed increase is paid and continue until the date the refund is made. In all cases in which a refund is due, the Commission shall order a total refund of the difference between the amount collected under bond and the amount finally approved."

V. ORDER

IT IS THEREFORE ORDERED THAT:

1. The Company shall design and file rates that produce the revenue increase granted in this Order. The Company shall also file a schedule with the Commission demonstrating that the rate design produces the revenue granted in this Order. The

Company shall serve these documents on the other parties to this case, who shall verify with this Commission that said rates are consistent with the provisions of this Order.

2. Appeal costs in the amount of $6,656.37 will be shared equally between ORS, Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc. and Bloody Point Property Owner's Association, and paid to DIUC.

3. The Company is to provide thirty (30) days' advance notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. § 58-5-240.

4. A return on equity of 9.31% and operating margin of 14.60%, based on the new rates, fees, and charges, is approved for DIUC.

5. The Company shall continue to maintain current performance bonds in the amounts of $350,000 for water operations and $350,000 for wastewater operations pursuant to S.C. Code Ann. § 58-5-720.

6. The Company shall implement all Commission-approved adjustments on its books and records.

7. The Company's books and records shall be maintained according to the NARUC Uniform System of Accounts. The Company is directed to make any necessary adjustments to its accounting system, including the use of straight line depreciation without utilization factors, to conform to the NARUC Uniform System of Accounts.

8. The Company shall refund the difference between the amount it collected under bond and the amount this Commission approves herein to the customers that paid

the excessive rates at an interest rate of twelve percent per annum. The interest commenced on the date the disallowed increase was paid and continues until the date the refund is made.

9. The Company shall comply with any order of the Commission in Docket No. 2017-381-A, and conform its taxes going forward to the appropriate Federal Tax rate.

10. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Swain E. Whitfield, Chairman

ATTEST:

Comer H. Randall, Vice Chairman

VI. Commissioner **Bockman**, concurring:

I concur in the findings of fact and conclusions of law which the Commission has reached, which I agree produce rates and charges for DIUC which are just and reasonable. I write separately only to comment with respect to the Commission's discussion and decision of one matter relating to the determination of DIUC's rate base.

The Commission's discussion of the parties' evidence and arguments concerning issues relating to rate base is clear and comprehensive. In my view, the adoption of $5,867,632 for DIUC's rate base is consistent with the evidence in this rehearing on remand and in the original hearing in 2015 and with the guidance in the Supreme Court's opinion. In Order No. 2015-846, the Commission adopted ORS's methodology for the calculation of DIUC's rate base to be appropriate for rate-making purposes and in the public interest. In addressing the issue of rate base, the Supreme Court directed the Commission on remand to recalculate DIUC's rate base, taking into account certain facilities, which the Commission has done here. I see no compelling reason to do anything other than that. The Commission's extensive discussion of the POAs' approach to calculating rate base and its recognition that the POAs' arguments "have some merit" neither constitute error in the Commission decision to adopt ORS's proposed rate base nor undermine the reasoning for that decision. Moreover, as the Commission here pointedly recognizes, nothing in this Order would preclude any of the parties from advancing different positions in future proceedings in which sufficient probative evidence and application of relevant principles of law might lead to some other result.

Robert T. Bockman

VII. Commissioners **FLEMING** and **ELAM,** dissenting:

We respectfully dissent and would adopt the rate base proposed by the POAs in this rehearing.

Prior settlement agreements and Commission orders in DIUC's past rate and stock transfer proceedings have stated that there was no binding conclusion reached on the appropriate rate base. Therefore, the instant case represents the Commission's first opportunity to establish the Company's rate base in a fully contested case.

The majority opinion fully discusses the evidence of record in this case concerning the appropriate rate base to be used in setting DIUC's rates in this case. It further agrees with the assessment of the ORS, in its testimony and in its proposed Order, that the recommendation of the POAs to exclude all donated property from rate base has merit. At the rehearing, ORS testified that while it found the POAs methodology to be reasonable, it chose to follow the same carryforward method it utilized at the October 28, 2015 hearing, and in past cases.

The POAs have presented compelling evidence as to the appropriate value of the rate base in this proceeding. Indeed, DIUC witness Guastella admitted in the Rehearing (Rehearing Tr. p. 50-51) that Haig Point (the predecessor company to DIUC) did not pay anything in exchange for the plant assets in question. Therefore, we believe the Commission should accept the adjustments to rate base as proposed by the POAs, or at a minimum, their proposal regarding depreciation expense.

South Carolina Code Regulations, Reg. 103-517 for sewer and Reg. 103-719 for water, require utilities to keep all books and records in accordance with the NARUC

Uniform System of Accounts (USoA). Contrary to USoA Accounting Instruction 18, "*Utility Plant – To Be Recorded at Cost*" Part D, DIUC erroneously booked the donated "Property Plant and Equipment" by crediting "Paid-in Capital" (Note 8 of Loy Exhibit CEL-R2, Rehearing Exhibit 5) instead of Contributions in Aid of Construction (CIAC). The NARUC USoA requires that entries to utility plant accounts for plant donated to the utility must be offset by credits to CIAC. NARUC defines CIAC as "[a]ny amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public." (Emphasis added). Section 271(A). (Rehearing Tr. p. 312, ll. 18-26). Whether the investment is called an equity investment or paid-in-capital, as opposed to a CIAC does not change the fact that the utility was provided the plant at no cost, and should therefore be treated as CIAC for ratemaking purposes.

While the majority opinion does not explicitly make such a finding, it appears the Commission is effectively waiving its regulations to reach its result. While the Commission has the authority to waive these regulations pursuant to Reg. 103-501(3) and 103-701(3), we do not believe it is appropriate in this case. With regard for sewer utilities, Reg. 103-501(3) states that:

In any case where compliance with any of these rules and regulations introduces unusual difficulty or where circumstances indicate that a waiver of one or more rules or regulations is otherwise appropriate, such rules or regulations may be waived by the

commission upon a finding by the commission that such waiver is not contrary to the public interest.

The same provisions are contained in Reg. 103-701 (3) for water. Accurately establishing the value of a utility's rate base is one of the most basic items the Commission must consider in setting just and reasonable rates. A utility with the ratemaking experience of DIUC should have no difficulty in complying with this requirement.

The majority's acceptance of the ORS rate base results in an excessive increase in customers' rates, which is clearly not in the public interest. Therefore, we believe any waiver is not appropriate in this case.

We respectfully dissent.

Elizabeth B. Fleming

Elizabeth B. Fleming

Elliott F. Elam, Jr.

Elliott F. Elam, Jr.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2018-346

MAY 16, 2018

IN RE:	Application of Daufuskie Island Utility Company, Inc. for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	))))	ORDER DENYING RECONSIDERATION

I. Introduction

This matter comes before the Public Service Commission of South Carolina ("the Commission") on the Petition for Reconsideration of Order No. 2018-68 ("the Order on Rehearing") filed by Daufuskie Island Utility Company, Inc. ("DIUC" or "the Company"). The Company asserts that three areas in the Order are appropriate for reconsideration: rate base/utility plant in service, accumulated depreciation/depreciation expense, and rate case expense. DIUC asserts that this Commission's disallowance of specifically identified used and useful assets in rate base/utility plant in service, its disallowance of certain expenses in accumulated depreciation/depreciation expense, and its disallowance of significant rate case expenses are not based upon the reliable, probative, and substantial evidence in the record. Additionally, the Company argues that the Commission's rulings are contrary to evidence and result in a punitive impact upon DIUC.

The Company requests that the Commission reconsider its Order on Rehearing and substitute DIUC's Proposed Order on Remand to replace the Commission's Order on Rehearing in its entirety. As an alternative, DIUC states that the Commission should revise

its Order on Rehearing to adjust the rate base for the disallowed assets and corrected accumulated depreciation, and adjust depreciation expense and a sufficient portion of the disputed rate case expenses in order to achieve DIUC's original 108.9% rate increase. This Commission has considered these matters in the written arguments of the Company, the Office of Regulatory Staff ("ORS"), and the three Intervenor Property Owner's Associations: Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., and Bloody Point Property Owner's Association (together, "the POAs"), and has concluded that the Company's Petition for Reconsideration is without merit and should be denied in its entirety. Each area of concern raised by DIUC is discussed below.

II. Rate Base/Utility Plant in Service

DIUC argues that the Commission's exclusion of $699,361 (out of a total of $8,139,260) in gross plant from rate base is erroneous and repeats the same error that resulted in appeal of Order No. 2015-846. This is not the case. Order No. 2015-846 excluded an "elevated tank site" from rate base, based on an ORS recommendation after ORS concluded that the "site" should not be included in rate base, since it sat on land that had been sold in a delinquent tax sale, and it could not be conclusively established that the elevated tank was not sold in the tax sale along with the land. DIUC appealed this exclusion to the South Carolina Supreme Court, which opined that the "elevated tank site" should have been included in rate base, based on the testimony of the Treasurer of Beaufort County at the original Commission hearing. The Supreme Court remanded the matter back to the Commission. In conformity with the Supreme Court's opinion, ORS proposed to add the

"elevated tank site" back into rate base. *See Daufuskie Island Utility Company, Inc. v. South Carolina Office of Regulatory Staff, 420 S.C. 305, 317, 803 S.E. 2d 280, 286 (2017) and Order No. 2018-68 at 21.* This Commission then adopted the position of the ORS on remand in Order No. 2018-68. *Order No. 2018-68 at 26.*

With the "elevated tank site" now placed back into rate base, this Commission's Order No. 2018-68 included in rate base all but $699,361 of the total rate base amount of $8,139,260 claimed by the Company. According to ORS testimony, this amount should be excluded from rate base, because the Company lacked invoices or any other means to show the value of these assets, which were included by plant account in an ORS exhibit (Exhibit DFS-5, Hearing Exhibit 8). These assets were thus deemed "unallowable" by ORS. The Commission adopted this position in the Order on Rehearing, which is now disputed by DIUC. Although the issue of excludable rate base is related to the question in the appeal of Order No. 2015-846, the issue in the present case is the amount of the rate base after the "elevated tank site" was added back into rate base. *Order No. 2018-68 at 26.* The issue in the appealed Order No. 2015-846 was the exclusion of the actual "elevated tank site" from rate base.

The first argument against the Commission's holding in the present case is that the exhibits furnished by ORS in the rehearing matter do not identify the excludable items of plant, but only plant accounts that cannot be matched with specific items. The Company therefore asserts that such evidence was not the required probative evidence to support the ORS position, or the Commission's conclusion to exclude plant. The Order on Rehearing cited specific testimony from ORS auditors, which established that the amount proposed

for exclusion was derived after adding the elevated tank site and related facilities to the account for plant in service as discussed by the Supreme Court's opinion, and established that the Company failed to present evidence supporting the value of the remaining excluded plant in service by invoices or other probative evidence. Actually, the Company's own witness furnished information that enabled the Company to identify specifics of the various items considered in plant-in-service at issue, along with categories of such plant. Specifically, in the original case, witness Guastella, on page 5 of his rebuttal testimony, stated that ORS had provided DIUC with work papers as a follow up to the audit exit conference call that enabled the Company to identify what it believes are the specifics of the ORS adjustments. (Hearing Tr. p. 202). Thus, the Company's position that the excluded plant cannot be specifically identified by item is incorrect.

With regard to ORS testimony provided to the Commission, ORS witness Gearhart testified that ORS's review of the Company's rate base consisted of three steps: 1) verifying that the Company's rate base, reported by DIUC in its Application, was supported by DIUC's accounting books and records for the twelve months ending December 31, 2014 (the "test year"); 2) testing the underlying transactions in the books and records for the test year to ensure the underlying transactions in the books and records were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded, and 3) making necessary adjustments to revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base, in accordance with generally accepted regulatory principles and prior Commission orders. (Hearing Tr. p. 489, ll. 15-22) ORS witness Sullivan testified that upon ORS review of the

Supreme Court decision in this case, which is Opinion No. 27729, ORS determined that it should recommend adjustments to plant-in-service. (Rehearing Tr. p. 235, ll. 11-12). ORS witness Sullivan testified during the rehearing that:

> [b]ased on guidance from [the Opinion], ORS proposes to adjust gross plant in service to include the water tank and well located on the elevated tank site. In Docket No. 2011-229-WS, ORS removed $863,379 from plant in service for the elevated water storage tank and $61,956 for a well located on the elevated tank site due to ownership disputes....The ORS adjustment to plant in service on Audit Exhibit ICG-4 was ($1,624,696). Based on the Supreme Court guidance, ORS now computes an adjustment to gross plant in service of ($699,361), which is shown on Revised Rehearing Audit Exhibit DFS-5. Audit Exhibit ICG-5 showed the adjusted water total for reservoirs and standpipes at $34,700. Revised Rehearing Audit Exhibit DFS-5 includes elevated water storage tank amount of $863,379, and shows the adjusted water total for wells as $732,908. Revised Rehearing Audit Exhibit DFS-5 includes the $61,956 for the well removed in Docket No. 2011-229-WS and shows the adjusted water total for wells as $794,864. Revised Rehearing Audit Exhibit DFS-5 reflects all other adjustments to plant-in-service included on Audit Exhibit ICG-5.

(Rehearing Tr. p. 451, ll. 12-23, p. 452, ll. 1-4).

Rehearing Exhibit 8, prepared by ORS witness Sullivan, specifically itemizes the amounts and corresponding plant. As the result of the testimony and exhibits presented by ORS witnesses, there is sufficient evidence to support ORS's recommended adjustment of $699,361, and, further, to support the Commission's Order.

According to ORS witness Gearhart, the purpose of her audit review was to test the underlying transactions that are recorded on the books. (Hearing Tr. p. 489, ll. 7-17.) When a booked item cannot be verified based on the information provided by an applicant utility, the ORS auditor must recommend an adjustment corresponding to the undocumented expense. The ORS auditor did so in this case in recommending the exclusion of the $699,361, because of a lack of documentation.

DIUC argues that even though it may have lacked the invoices to support the figures for plant-in-service on its books, the Company's books are the best estimate of the value of the assets, and, further, the NARUC Uniform System of Accounts states that estimates may be used to establish the value of assets when other sources, such as invoices, are lacking. Although estimates may be allowable under certain circumstances, the NARUC Uniform System of Accounts for both water and wastewater companies requires that property records be maintained by the utility. Lacking such documentation, ORS properly excluded the $699,361 in plant-in-service.

Although the Company argued that, despite the absence of verifiable property records, ORS should have accepted the Company's own estimates of the values, the Commission cannot accept estimates in regard to the Rate Base items in question without proper documentation of relevant, sufficient, and reliable data on which to decide the Company's revenue requirements. The Company has not established a process for preparing accounting estimates that can be audited by an independent third party, such as the ORS. Therefore, the Company must provide proper documentation for such items in future proceedings, if it seeks approval of them. Such documentation can be provided by various sources, such as obtaining duplicate invoices from vendors, presenting cancelled checks as proof of payment, obtaining copies of cancelled checks from banking institutions when necessary, supplying copies of paid contracts, and/or obtaining independent third party estimates for questioned items. Meanwhile, however, the Company's position must be rejected.

In this case, the burden of proof clearly rests with the Company, not ORS, and the Company was not able to satisfy that burden with figures in its books derived from unknown sources, regardless of the possible used and usefulness of the assets. Although a water utility is entitled to a presumption in a proceeding on application for rate increase that its expenditures were reasonable and incurred in good faith, such a presumption does not foreclose scrutiny by the Public Service Commission, and, thus, the utility had the burden of proving the reasonableness of such expenditures after the Commission's investigation yielded evidence that such expenditures were not reasonable. *See Utilities Services of South Carolina, Inc. v. South Carolina Office of Regulatory Staff*, 392 S.C. 96, 708 S.E. 2d 755 (2011). The evidence presented by ORS supports this Commission's conclusion with regard to the unreasonableness and exclusion of the plant in service items, because of lack of documentation by the Company. Further, for similar reasons, the evidence presented by ORS supports the adjustment made for capital costs and legal costs associated with plant in service, which we adopted in Order No. 2018-68, and, Company allegations to the contrary, must also be rejected. These are the "Land and Land Rights" shown in Exhibit DFS-5, Hearing Exhibit 8.

The Company's position on the appropriate Rate Base/Plant in Service must be rejected by this Commission. The Commission will certainly consider any new supporting evidence regarding this category in future rate proceedings.

III. Accumulated Depreciation and Depreciation Expense

With regard to DIUC's allegations regarding accumulated depreciation and depreciation expense, it is clear that ORS updated these "fall out" adjustments and

presented them during the rehearing of this case. DIUC simply says that it disagrees with the Commission's decision, which adopted the ORS testimony and evidence on these points. A simple "disagreement" from DIUC does not demonstrate that the Commission's decision adopting the ORS position was in error. A finding upon which reasonable people may differ will not be set aside. *Lark v. Bi-Lo, Inc.*, 276 S.C. 130, 276 S.E. 2d 304 (1981). As ORS witness Sullivan pointed out, ORS has consistently challenged the books of the Company, specifically with regard to plant-in-service figures, since at least Docket No. 2011-229-WS, due to non-allowable plant and adjustments made by ORS in previous cases that have not been made by the Company. Rehearing Tr. p. 460. As such, DIUC and ORS offered differing views on depreciation expense and accumulated depreciation, and the Commission decided that the ORS view was the appropriate view. The Commission's decision to choose the ORS evidence over DIUC's does not rise to reversible error.

Further, according to ORS witness Sullivan,

> ...through discovery, DIUC submitted invoices to support additional rate case expense that had been incurred since the original October 20, 2015 Commission hearing. Based on a review of the invoices provided by the Company, ORS updated total rate case expenses and the amortization of rate case expenses. ORS also updated all "fall out" adjustments, such as depreciation expense, accumulated depreciation... ORS prepared Rehearing Audit Exhibits DFS-1 through DFS-8 based on these changes and using the Company's proposed increase in its rehearing testimony and exhibits.

(Tr. p. 444, ll. 13-22).

Fall-out adjustments depend upon other adjustments for their determination. Therefore, pursuant to DIUC's interpretation of the Court's Order, and the Court's Order itself, any new fall-out adjustment would only occur in the rehearing to the extent it, or an adjustment upstream, was required by the Court's guidance or new evidence dealing with

the expenses of an appeal is presented by DIUC. ORS followed the guidance given by the Supreme Court and provided evidence to that effect. Again a mere conflict between two sets of evidence does not prove that one set does not have weight. Rather, the Commission acts as the trier of fact, weighs the evidence before it, and makes its determination. *See Southern Bell Tel. & Tel. Co. v. Public Service Commission,* 270 S.C. 590, 244 S.E. 2d 278 (1978). The Commission appropriately weighed the evidence and relied on substantial evidence in making its decision to accept the ORS recommended accumulated depreciation and depreciation expense.

DIUC asserts that the rehearing testimony of Gary White was definitive, and that Mr. Sullivan's testimony was flawed since, among other things, Mr. Sullivan's depreciation schedules were in conflict with DIUC's book figures, and did not recognize any known and measurable changes after December 31, 2014. There is a good reason for the conflict between the Company's book figures and ORS schedules, since ORS has disagreed with DIUC's book figures for several years, going back to at least Docket No. 2011-229-WS according to ORS witness Sullivan. With regard to Sullivan not recognizing any changes after December 31, 2014, that date marks the end of the test year period for the case, so it is reasonable for ORS to limit known and measurable changes to before December 31, 2014. Again, the Commission had the ability to choose one of two positions, and it chose the position accompanying the assertions of ORS. No reconsideration of the Commission Order is necessary, or reasonable, under the circumstances.

IV. Rate Case Expenses

In the rehearing phase of this Docket, DIUC requested "$794,210 for current and unamortized rate case expenses recovered over 3 years". Order on Rehearing at p. 36, citing to Rehearing Tr. p. 473, ll. 15-17. ORS recommended a rate case expense total of $272,382 to be amortized over 5 years, adjusting the $794,210 amount sought by DIUC to remove $542,978 in invoices submitted by Guastella and Associates and other uncontested items. Order on Rehearing at pp. 36-37. The Order on Rehearing adopted the shorter amortization of rate case expenses proposed by DIUC (3 years instead of 5 years), but agreed with ORS that those particular invoices must be excluded (Order on Rehearing at p. 39). Clearly DIUC bears the burden of proof to justify those expenses that contribute to its revenue requirement. This Commission recognized in our Order on Rehearing that ORS witness Hipp completed a thorough review of all invoices from Guastella Associates, and found that they "contained mathematical errors, lacked sufficient detail, and/or did not appear to be paid." Rehearing Tr. p. 476, ll. 11-18. In addition, the accuracy of the Company's claimed rate case expenses is questionable due to attempts to recover duplicate charges already paid out pursuant to the South Carolina Supreme Court's previous ruling regarding reimbursement of appeal costs. Rehearing Tr. p. 475, l. 21 through p. 476, l. 10.

Further, DIUC's claim that it was not afforded an opportunity to rebut the ORS recommendation to exclude the Guastella and Associates invoices is erroneous. Petition for Reconsideration, pp. 12-14. DIUC witness Guastella addressed the issue in his Rebuttal Testimony, in response to Direct Testimony of ORS witness Hipp, and the issue was discussed at some length during the Rehearing. Ms. Hipp testified further in her Surrebuttal

Testimony about the inadequacies of the invoices, which were discussed further at the rehearing. Rehearing Tr. 480-492. Clearly, all prefiled testimony in the hearing on this issue was served on DIUC in advance of the hearing, including that of ORS witness Hipp. This should have provided ample time for the Company to examine the testimony and prepare for the hearing.

Further, the DIUC assertion that the Commission "should have considered the rate case expense issues on remand based on the Supreme Court's ruling that the previous rate case expense adjustment was 'entirely unsupported by the evidence presented to the Commission [at the original hearing]'" simply misses the point. Clearly, the Commission heard additional evidence on this topic at the rehearing on this matter pursuant to the Court's direction to hold a hearing *de novo*, and made an appropriate ruling based on evidence presented at the rehearing. In essence, the Commission followed the directions provided by the Supreme Court, and issued its ruling based on evidentiary support provided at the rehearing by ORS when it excluded the $542,978 in rate case expenses. Further, the burden was on the Company to present evidence on the remaining portion of rate case expenses. No such credible evidence was presented at the rehearing.

DIUC's citation to *Utilities Services of S.C., Inc. v. S.C. Off. Of Reg. Staff* case, found at 392 SC. 96, 708 S.E. 2d 755 (2011) is unavailing, as the facts in the present case are dissimilar to those that existed in *Utilities Services*. Although DIUC failed to meet its burden regarding sufficiency of evidence in this case, the Commission has made it clear that the Company is not foreclosed from providing supporting evidence on this issue that satisfy the criteria listed by ORS witness Hipp presented at the rehearing in its next rate

case. Order on Rehearing at p. 39. Accordingly, this allegation of error in the Order on Rehearing is without any substantial basis, and must be rejected.

V. Annual Revenues

In its filing on February 4, 2018, DIUC noted that, pursuant to the provisions of Order No. 2018-68, it is collecting $955,136 in additional annual revenue, rather than the $950,166 in additional annual revenue approved by that Order. The Company shall make appropriate adjustments to cease the collection of the annual revenue which exceeds the authorized level of $950,166.

VI. Conclusion and Order

Based on the reasoning stated above, the Petition for Reconsideration filed by DIUC is hereby denied. Further, DIUC shall cease collection of annual revenues over the authorized level of $950,166.

BY ORDER OF THE COMMISSION:

Swain E. Whitfield, Chairman

ATTEST:

Comer H. Randall, Vice Chairman

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO.:_____-WS

APPLICATION OF DAUFUSKIE ISLAND UTILITY COMPANY, INC. FOR APPROVAL OF AN ADJUSTMENT IN RATES AND CHARGES FOR WATER AND SEWER SERVICES

In accordance with S.C. Code Sections 58-5-210 et seq., R. 103-514.4, R. 103-712.4, and R. 103-834, the Applicant, Daufuskie Island Utility Company, Inc., requests adjustment of its rates and charges for water and sewer services, and submits the following information and Exhibits in support of its Application.

June 5, 2015

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OVERVIEW AND JUSTIFICATION

The Daufuskie Island Utility Company, Inc. ("DIUC" or "Company") formerly known as the Haig Point Utility Company, Inc. was established to provide water and sewer utility service to the 1,050 acre planned development with 750 single family homes and club, known as Haig Point, and the Cedar Cove Subdivision consisting of 18 single family residential lots, located on Daufuskie Island in Beaufort County, South Carolina.

In March of 2010, DIUC acquired the Melrose Utility Company ("MUC") also located on Daufuskie Island in Beaufort County, South Carolina. MUC was established to provide water and sewer service to the planned developments known as Melrose and Bloody Point consisting of approximately 580 residential lots and 60 commercial lots.

This application for approval of new rates and charges is based on the historical test year ended December 31, 2014. The test year is representative of the Company's consolidated Haig Point and Melrose normal utilities operation which is currently producing insufficient annual income. The pro forma rate period is based on the projected operations for the twelve months ending December 31, 2015 adjusted for known and measureable changes.

This application is necessary because the current rates do not enable the Company to cover its cost of providing service and earn a fair return on its investment. The Company has not applied for rate relief since 2010 and has not yet established unified rates under its current consolidated status. The test year revenues, under current rates, produced net operating losses of $21,174 for the water operations or a negative .65% return on its investment. The sewer operations experienced net operating income of $59,890 or a 1.59% return on its investment. As this application demonstrates, the pro forma rate year under the current rates, would produce even less income and result in a negative 5.27% return for water and a negative 2.81% return for sewer. The proposed rates developed in this application are essential for the Daufuskie Island Utility Company to continue to provide its customers with adequate water and wastewater service.

The proposed rate design would eliminate the current water and sewer usage allowances that currently exist under the Melrose tariff and apply volumetric rates to all water and sewer usage by all customers, as it currently applies under the DIUC tariff. The proposed irrigation rates would also apply inclining block rates, as it currently applies under the DIUC tariff, to all irrigation customers. The tiered rate structure is designed to promote water conservation. The proposed rates would establish uniform rates for all of the DIUC customers. The proposed rates result in very similar increases of the annual water and sewer charges for both the Haig Point and Melrose service area customers.

Statement of Proposed Rates

			Haig Pt. Present Rates	Melrose Present Rates	DIUC Proposed Rates
I.	**Residential Rates**				
A.	Water:				
1)	Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
2)	Base Quarterly Charge		$62.09	$80 72	$149.30
3)	Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2 76	$0.00	$4.41
		Over 22,500 gallons	$2.76	$2 44	$4.41
B.	Sewer.				
1)	Tapping Fees & Service Lateral		$500.00	$500.00	$500.00
2)	Base Quarterly Charge		$110.38	$80.72	$218.18
3)	Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.38
		Over 22,500 gallons	$1.32	$1.95	$2.38
C.	Irrigation:				
1)	Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
2)	Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4 85
		18,001 to 60,000 gallons	$3.09	$1.66	$5.73
		Over 60,000 gallons	$3.50	$1.66	$6.61
II.	**Commercial Rates**				
A.	Water:				
1)	Tapping Fees per Hotel or Inn Room		$250 00	$250.00	$250.00
2)	Tapping Fees up to 1-1/2" Meter		$500.00	$500.00	$500.00
3)	Tapping Fees 2" or 3" Meter		$1,500.00	$1,500.00	$1,500.00
4)	Tapping Fees for 6" Meter		$3,500.00	$3,500.00	$3,500.00
	Note: Larger meters on a case by case basis.				
5)	Base Quarterly Charge		$86.93	$136.60	$209.01
6)	Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4.41
		Over 22,500 gallons	$2.76	$1.95	$4.41
B.	Sewer:				
1)	Tapping Fees per Hotel or Inn Room		$250.00	$250.00	$250.00
2)	Tapping Fees 4" - 8" Sewer Pipe		$500.00	$500.00	$500.00
2)	Base Quarterly Charge		$178.21	$136.60	$305.45
3)	Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1 32	$0.00	$2.38
		Over 22,500 gallons	$1.32	$1.95	$2.38
C.	Irrigation:				
1)	Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
2)	Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4.85
		18,001 to 60,000 gallons	$3.09	$1.66	$5.73
		Over 60,000 gallons	$3.50	$1 66	$6.61

Daufuskie Island Utility Co.
c/o Guastella Associates
6 Beacon St, STE 200
Boston, MA 02108
888-635-7878

JOHN DOE
123 STREET
DAUFUSKIE ISLAND, SC 29915-

Account #	SAMPLE
Billing Date	07/01/14
Due Date	07/31/14
Amount Due	1094.50

Detach and Submit with Payment

Service ID#	From Date	Thru Date	Days	Service Address
SAMPLE	04/01/14	07/01/14	91	123 A STREET

Charge Description	Previous Reading	Present Reading	Total Consumption	Charge
WATER - D	8000	8000	0	62.09
SEWER - D				110.38
IRRIG - D	12000	12000	0	0.00
AVAIL - WT				76.38
AVAIL - SW				85.08
				333.93

DEAR CUSTOMER. TO ENSURE PROPER DELIVERY PLEASE UPDATE OUR MAILING ADDRESS AS SHOWN IN THE TOP LEFT CORNER IN ALL OF YOU BILL PAY ACCOUNTS PLEASE CONTACT US WITH ANY QUESTIONS AT ADMIN@DIUTILITY.COM OR THE TELEPHONE NUMBER LISTED ABOVE.

TOTAL PREVIOUS BALANCE	760.57
CURRENT CHARGES	333.93
IF PAID BY 07/31/14	**1094.50**
IF PAID AFTER 07/31/14	1110.68

This invoice represents an "Availability Fee" that charges customers for the "availability" to tap-in water and sewer lines on Daufuskie Island, South Carolina. This fee was defined and identified in the contract and disclosure documents you received when you purchased your Daufuskie Island property

Water charges include a base charge of $62 09 (residential) and $86 93 (commercial). Sewer charges include a base charge of $110 38 (residential) and $178.21 (commercial)

For questions regarding billing, call 888-635-7878. For emergencies regarding your utilities, call 843-686-9249 (business hours) or 843-247-3135 (after hours).

Daufuskie Island Utility is under the jurisdiction of the South Carolina Public Service Commission ("PSC") Charges are based on a rate schedule filed and approved by the PSC and available for your inspection upon request If you are not satisfied with the Utility's response to an inquiry you can contact the Office of Regulatory Staff's Consumer Services Division at 803-737-5231 or within S C at 800-922-1531

If a previous payment was received after the invoice date ("bill date") show on this bill, the payment is not reflected on this invoice However, the payment is reflected in our billing system and you should disregard the previous balance displayed In addition, a Late Payment Charge of 1 1/2% will be added to any unpaid balance not paid before the Late Date shown

INVOICE

Sterling Risk Advisors Inc.
P O Box 724137
Atlanta, GA 31139

Customer	Terry R. Lee Contracting Company, Inc 19748
Date	03/22/2015
Customer Service	Danny Sellers Debra Johnson
Page	1 of 1

Payment Information	
Invoice Summary	5,250.00
Payment Amount	
Payment for:	Invoice#313291
BMA 1942391	

Thank You

Daufuskie Island Utility Company, Inc.
9688 Speedway Blvd.
Hardeeville, SC 29227

Please detach and return with payment

Customer: Terry R. Lee Contracting Company, Inc

Invoice	Effective	Transaction	Description	Amount
313291	02/14/2015	Renew policy	Policy #BMA 1942391 02/14/2015-02/14/2016 Hanover Insurance Company Renewal - SC Sewer Utilities Operation Bond Bond Amount $350,000.00 Due Date 4/1/2015	5,250.00

Total
5,250.00

Thank You

Sterling Risk Advisors Inc. P O Box 724137 Atlanta, GA 31139	(678)424-6500	Date 03/22/2015

Bond No: 1942391

PERFORMANCE BOND

FINANCIAL STATEMENT

(SEWER UTILITIES)

KNOW ALL MEN BY THESE PRESENTS, that Daufuskie Island Utility Company, Inc. **being duly qualified to do business in the State of South Carolina, designated as "principal", and that** The Hanover Insurance Company **, designated as "surety"/"sureties" is/are held and firmly bound unto the Public Service Commission of South Carolina, designated as "obligee", in the penal sum of $** 350,000.00 **, for the payment of which well and truly to be made, the principal binds itself, its successors and assigns, and the surety/sureties bind themselves, their personal representatives, and their assigns, jointly and severally, firmly by these presents.**

WHEREAS, in accordance with the provisions of S. C. Code Ann., §58-5-720 (1976, as amended), which requires the principal to furnish a bond with sufficient surety, to the satisfaction of the obligee, conditioned as provided in said §58-5-720, and

WHEREAS, the obligee has granted the principal a Certificate of Public Convenience and Necessity and approved a schedule of rates for sewer service in areas shown on operating maps filed with the obligee, and

WHEREAS, this bond, when approved by the obligee, conditioned as in said §58-5-720, is to cover any and all liability which may arise as a result of the principal failing to provide adequate and sufficient service within its service area as prescribed in §58-5-720, and

WHEREAS, the obligee, upon notice and hearing, shall have the right to declare all or any part of the bond forfeited upon a determination by the obligee that the principal shall have willfully failed to provide such service as prescribed above, without just cause or excuse, and that such failure has continued for an unreasonable length of time, and

WHEREAS, the liability under the terms of this bond is hereby extended so as to include any fines or penalties imposed or assessed by the obligee against the principal under the provisions of S.C. Code Ann. §58-5-710 (1976 as amended), and

WHEREAS, in the event that any judicial action or proceedings are initiated with respect to this bond, the parties hereby agree that the venue thereof shall be Richland County, State of South Carolina, and

WHEREAS, the surety/sureties, as stockholders of the principal, undertake this obligation for and in consideration of the principal being able to continue to operate a sewer utility providing service to the public for compensation under the jurisdiction of the obligee, and

WHEREAS, the surety/sureties, as shall file with this bond a Financial Statement showing personal assets, liabilities, and net worth; and shall file annually with the obligee a revised Financial Statement as long as the bond continues in effect, and

WHEREAS, this bond shall become effective on the date executed by the principal and surety/sureties, and shall continue from year to year unless the obligations of the principal and surety/sureties under this bond are expressly released by the obligee in writing, and

WHEREAS, the obligee upon notice and opportunity to the principal and surety/sureties to be heard, may order that the face amount of this bond to be changed within the limits set forth in S. C. Code Ann., §58-5-720 (1976 as amended).

NOW THEREFORE, in testimony whereof, said principal has hereunto subscribed its name and said principal has caused this instrument to be signed by its duly authorized officers, and its corporate seal to hereunto affixed this 14th **day of** February **,** 2011 **;and that said surety/sureties have caused this instrument to be signed this** 14th **day of** February **,** 2011 **.**

SURETY/SURETIES:

The Hanover Insurance Company

Signature Joyce M Connor, Attorney-In-Fact

Daufuskie Island Utility Company, Inc.

Company

IN THE PRESENCE OF:

By

Witness # 1 Raimona Neal

Title

Witness # 2 Tammy Forrester

IN THE PRESENCE OF

Signature

Witness # 1

Witness # 2

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

POWERS OF ATTORNEY
CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS: That THE HANOVER INSURANCE COMPANY and MASSACHUSETTS BAY INSURANCE COMPANY, both being corporations organized and existing under the laws of the State of New Hampshire, and CITIZENS INSURANCE COMPANY OF AMERICA, a corporation organized and existing under the laws of the State of Michigan, do hereby constitute and appoint.

S Danny Sellers, Joyce M Connor, and/or Richmond Lanier Mitchell

of Duluth, GA and each is a true and lawful Attorney(s)-in-fact to sign, execute, seal, acknowledge and deliver for, and on its behalf, and as its act and deed any place within the United States, or, if the following line be filled in, only within the area therein designated

any and all bonds, recognizances, undertakings, contracts of indemnity or other writings obligatory in the nature thereof, as follows:
Any such obligations in the United States, not to exceed Ten Million and No/100 ($10,000,000.00) in any single instance

and said companies hereby ratify and confirm all and whatsoever said Attorney(s)-in-fact may lawfully do in the premises by virtue of these presents. These appointments are made under and by authority of the following Resolution passed by the Board of Directors of said Companies which resolutions are still in effect:

"RESOLVED, That the President or any Vice President, in conjunction with any Assistant Vice President, be and they are hereby authorized and empowered to appoint Attorneys-in-fact of the Company, in its name and as its acts, to execute and acknowledge for and on its behalf as Surety any and all bonds, recognizances, contracts of indemnity, waivers of citation and all other writings obligatory in the nature thereof, with power to attach thereto the seal of the Company. Any such writings so executed by such Attorneys-in-fact shall be as binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company in their own proper persons." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 – Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

IN WITNESS WHEREOF, THE HANOVER INSURANCE COMPANY, MASSACHUSETTS BAY INSURANCE COMPANY and CITIZENS INSURANCE COMPANY OF AMERICA have caused these presents to be sealed with their respective corporate seals, duly attested by a Vice President and an Assistant Vice President, this 14th day of June, 2010.

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

Mary Jeanne Anderson, Vice President

Robert K. Grennan, Assistant Vice President

THE COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF WORCESTER) ss.

On this 13th day of June, 2010., before me came the above named Vice President and Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, to me personally known to be the individuals and officers described herein, and acknowledged that the seals affixed to the preceding instrument are the corporate seals of The Hanover Insurance Company Massachusetts Bay Insurance Company and Citizens Insurance Company of America, respectively, and that the said corporate seals and their signatures as officers were duly affixed and subscribed to said instrument by the authority and direction of said Corporations.

BARBARA ANN GARLICK
Notary Public
Commonwealth of Massachusetts
My Commission Expires Nov 3, 2011

Barbara A. Garlick
Notary Public

My commission expires on November 3, 2011

I, the undersigned Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, hereby certify that the above and foregoing is a full, true and correct copy of the Original Power of Attorney issued by said Companies, and do hereby further certify that the said Powers of Attorney are still in force and effect.

This Certificate may be signed by facsimile under and by authority of the following resolution of the Board of Directors of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America.

"RESOLVED, That any and all Powers of Attorney and Certified Copies of such Powers of Attorney and certification in respect thereto, granted and executed by the President or any Vice President in conjunction with any Assistant Vice President of the Company, shall be binding on the Company to the same extent as if all signatures therein were manually affixed, even though one or more of any such signatures thereon may be facsimile." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

GIVEN under my hand and the seals of said Companies, at Worcester, Massachusetts, this day of , 20 .

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

Stephen L. Brault, Assistant Vice President

Sterling Risk Advisors Inc.
P O Box 724137
Atlanta, GA 31139

INVOICE

Customer	Terry R. Lee Contracting Company, Inc. 19748
Date	03/22/2015
Customer Service	Danny Sellers Debra Johnson
Page	1 of 1

Payment Information	
Invoice Summary	5,250 00
Payment Amount	
Payment for:	Invoice#313292
BMA 1942392	

Thank You

Daufuskie Island Utility Company, Inc.
9688 Speedway Blvd.
Hardeeville, SC 29227

Please detach and return with payment

Customer: Terry R. Lee Contracting Company, Inc

Invoice	Effective	Transaction	Description	Amount
313292	02/14/2015	Renew policy	Policy #BMA 1942392 02/14/2015-02/14/2016 Hanover Insurance Company Renewal - SC Water Utilities Operation Bond Bond Amount $350,000.00 Due Date. 4/1/2015	5,250 00

Total
5,250.00

Thank You

Sterling Risk Advisors Inc. P O Box 724137 Atlanta, GA 31139	(678)424-6500	Date 03/22/2015

Bond No: 1942392

PERFORMANCE BOND

FINANCIAL STATEMENT

(WATER UTILITIES)

KNOW ALL MEN BY THESE PRESENTS, that Daufuskie Island Utility Company, Inc. **being duly qualified to do business in the State of South Carolina, designated as "principal", and that** The Hanover Insurance Company **, designated as "surety"/"sureties" is/are held and firmly bound unto the Public Service Commission of South Carolina, designated as "obligee", in the penal sum of $** 350,000.00 **, for the payment of which well and truly to be made, the principal binds itself, its successors and assigns, and the surety/sureties bind themselves, their personal representatives, and their assigns, jointly and severally, firmly by these presents.**

WHEREAS, in accordance with the provisions of S. C. Code Ann., §58-5-720 (1976, as amended), which requires the principal to furnish a bond with sufficient surety, to the satisfaction of the obligee, conditioned as provided in said §58-5-720, and

WHEREAS, the obligee has granted the principal a Certificate of Public Convenience and Necessity and approved a schedule of rates for water service in areas shown on operating maps filed with the obligee, and

WHEREAS, this bond, when approved by the obligee, conditioned as in said §58-5-720, is to cover any and all liability which may arise as a result of the principal failing to provide adequate and sufficient service within its service area as prescribed in §58-5-720, and

WHEREAS, the obligee, upon notice and hearing, shall have the right to declare all or any part of the bond forfeited upon a determination by the obligee that the principal shall have willfully failed to provide such service as prescribed above, without just cause or excuse, and that such failure has continued for an unreasonable length of time, and

WHEREAS, the liability under the terms of this bond is hereby extended so as to include any fines or penalties imposed or assessed by the obligee against the principal under the provisions of S.C. Code Ann. §58-5-710 (1976 as amended), and

WHEREAS, in the event that any judicial action or proceedings are initiated with respect to this bond, the parties hereby agree that the venue thereof shall be Richland County, State of South Carolina, and

WHEREAS, the surety/sureties, as stockholders of the principal, undertake this obligation for and in consideration of the principal being able to continue to operate a water utility providing service to the public for compensation under the jurisdiction of the obligee, and

WHEREAS, the surety/sureties, as shall file with this bond a Financial Statement showing personal assets, liabilities, and net worth; and shall file annually with the obligee a revised Financial Statement as long as the bond continues in effect, and

WHEREAS, this bond shall become effective on the date executed by the principal and surety/sureties, and shall continue from year to year unless the obligations of the principal and surety/sureties under this bond are expressly released by the obligee in writing, and

WHEREAS, the obligee upon notice and opportunity to the principal and surety/sureties to be heard, may order that the face amount of this bond to be changed within the limits set forth in S. C. Code Ann., §58-5-720 (1976 as amended).

NOW THEREFORE, in testimony whereof, said principal has hereunto subscribed its name and said principal has caused this instrument to be signed by its duly authorized officers, and its corporate seal to hereunto affixed this 14th **day of** February, 2011 **;and that said surety/sureties have caused this instrument to be signed this** 14th **day of** February, 2011 .

SURETY/SURETIES:
The Hanover Insurance Company

Joyce M Connor
Signature Joyce M Connor, Attorney-in-Fact

Company

IN THE PRESENCE OF:

By

Raimona Neal
Witness # 1 Raimona Neal

Title

Tammy Forrester
Witness # 2 Tammy Forrester

IN THE PRESENCE OF

Signature

Witness # 1

Witness # 2

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

POWERS OF ATTORNEY
CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS. That THE HANOVER INSURANCE COMPANY and MASSACHUSETTS BAY INSURANCE COMPANY, both being corporations organized and existing under the laws of the State of New Hampshire, and CITIZENS INSURANCE COMPANY OF AMERICA, a corporation organized and existing under the laws of the State of Michigan, do hereby constitute and appoint
S Danny Sellers, Joyce M Connor, and/or Richmond Lanier Mitchell

of **Duluth, GA** and each is a true and lawful Attorney(s)-in-fact to sign, execute, seal, acknowledge and deliver for, and on its behalf, and as its act and deed any place within the United States, or, if the following line be filled in, only within the area therein designated

any and all bonds, recognizances, undertakings, contracts of indemnity or other writings obligatory in the nature thereof, as follows:
Any such obligations in the United States, not to exceed Ten Million and No/100 ($10,000,000.00) in any single instance

and said companies hereby ratify and confirm all and whatsoever said Attorney(s)-in-fact may lawfully do in the premises by virtue of these presents. These appointments are made under and by authority of the following Resolution passed by the Board of Directors of said Companies which resolutions are still in effect:

"RESOLVED, That the President or any Vice President, in conjunction with any Assistant Vice President, be and they are hereby authorized and empowered to appoint Attorneys-in-fact of the Company, in its name and as its acts, to execute and acknowledge for and on its behalf as Surety any and all bonds, recognizances, contracts of indemnity, waivers of citation and all other writings obligatory in the nature thereof, with power to attach thereto the seal of the Company. Any such writings so executed by such Attorneys-in-fact shall be as binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company in their own proper persons." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 – Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

IN WITNESS WHEREOF, THE HANOVER INSURANCE COMPANY, MASSACHUSETTS BAY INSURANCE COMPANY and CITIZENS INSURANCE COMPANY OF AMERICA have caused these presents to be sealed with their respective corporate seals, duly attested by a Vice President and an Assistant Vice President, this **14th** day of **June, 2010.**

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

Mary Jeanne Anderson, Vice President

Robert K. Grennan, Assistant Vice President

THE COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF WORCESTER) ss.

On this **13th** day of **June, 2010.**, before me came the above named Vice President and Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, to me personally known to be the individuals and officers described herein, and acknowledged that the seals affixed to the preceding instrument are the corporate seals of The Hanover Insurance Company Massachusetts Bay Insurance Company and Citizens Insurance Company of America, respectively, and that the said corporate seals and their signatures as officers were duly affixed and subscribed to said instrument by the authority and direction of said Corporations.

BARBARA ANN GARLICK
Notary Public
Commonwealth of Massachusetts
My Commission Expires Nov 3, 2011

Barbara A. Garlick
Notary Public

My commission expires on November 3, 2011

I, the undersigned Assistant Vice President of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America, hereby certify that the above and foregoing is a full, true and correct copy of the Original Power of Attorney issued by said Companies, and do hereby further certify that the said Powers of Attorney are still in force and effect.

This Certificate may be signed by facsimile under and by authority of the following resolution of the Board of Directors of The Hanover Insurance Company, Massachusetts Bay Insurance Company and Citizens Insurance Company of America.

"RESOLVED, That any and all Powers of Attorney and Certified Copies of such Powers of Attorney and certification in respect thereto, granted and executed by the President or any Vice President in conjunction with any Assistant Vice President of the Company, shall be binding on the Company to the same extent as if all signatures therein were manually affixed, even though one or more of any such signatures thereon may be facsimile." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 Massachusetts Bay Insurance Company; Adopted September 7, 2001 - Citizens Insurance Company of America)

GIVEN under my hand and the seals of said Companies, at Worcester, Massachusetts, this day of , 20 .

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY
CITIZENS INSURANCE COMPANY OF AMERICA

Stephen L. Brault, Assistant Vice President

D H E C
PROMOTE PROTECT PROSPER
W. Marshall Taylor Jr., Acting Director
Promoting and protecting the health of the public and the environment

May 1, 2015

Mr. Mike L. Guastella
Guastella Associates, LLC
PO Box 360
Northborough, MA 01532-0360

RE: **Consent Order 15-003-W**
Daufuskie Island Utility Company
Permits ND0068179 and ND0062286
Beaufort County

Dear Mr. Guastella,

We have received, via e-mail, your proposed Corrective Action Plan (CAP) in response to the referenced Consent Order. After review by staff, your proposed CAP has been determined to be acceptable. Pursuant to the terms of the Consent Order, the CAP will now become part of the Order. If you have any questions in this matter, please call me at (803) 898-1261.

Sincerely,

H. Michael Longshore, MPH, REHS
Water Enforcement Division
Bureau of Water

Compliance Evaluation Inspection
DAUFUSKIE ISLAND CLUB
PERMIT ND0068179

Introduction
On March 24, 2015, personnel from the South Carolina Department of Health and Environmental Control (SCDHEC) conducted a Compliance Evaluation Inspection (CEI) at the Daufuskie Island Club Wastewater Treatment Facility, Daufuskie Island, South Carolina. The inspector, Penny Cornett met with facility representatives Eric Johanson and Mike Guastella to explain the objectives and procedures of the inspection.

Permit
This facility is authorized to discharge under Land Application Discharge Permit No. ND0068179. Treated wastewater is discharged through outfall 001 to an 18 hole golf course at the Daufuskie Island Club development at Bloody Point. Permit information regarding the name and location of the land application site is correct. Permit information regarding the number and location of discharge points is correct. Outfall 001 is for discharge of treated effluent to the effluent holding pond and then to the golf course. Groundwater monitoring is required semi-annually on each of the 9 groundwater monitoring wells on the 18 hole golf course. The permit became effective on April 1, 2009 and expires on September 30, 2018.

Rating: Satisfactory

Consent Order
Consent order 15-003-W was executed March 4, 2015. The consent order requires that a Corrective Action Plan (CAP) to address deficiencies noted in the CEI reports and prevent future violations be submitted to the Department within 60 days of the execution date of the order.

Rating: Satisfactory

Records and Reports
Records and reports are being maintained as required by the permit. All information is available, complete, current and maintained for a minimum of three years. The Discharge Monitoring Reports (DMRs) for January 2014, January 2015 and February 2015 were reviewed. Analytical results are consistent with the data reported on the DMRs. Sampling and analysis data is adequate and includes dates, times, locations of sampling as well as methods and techniques, results and persons performing sampling and analysis.

The operator's logbook is maintained daily. A preventative maintenance program, emergency procedures, spare parts inventory and pump station inspection program have been established. In accordance with Part II E 3 of the NPDES Permit, the permittee shall develop and maintain at the facility a complete Operations and Maintenance Manual for the waste treatment facilities and/or land application system. The manual shall contain a general description of the treatment process(es), the operational procedures to meet the requirements of the permit and the corrective action to be taken should operating difficulties be encountered.

Rating: Satisfactory
Requirement: Develop an Operations and Maintenance Manual.

Flow Measurement
Flow is measured at the effluent using a 60-degree V notch weir. The weir plate appears to be level, plumb and its top edges are sharp and clean. The stilling basin is of sufficient size and clear of debris. Flow is measured at the effluent with an Endress/Hauser FM U90 flow meter. The flow meter was last calibrated on December 18, 2014. At the time of the inspection, there was no flow over the weir.

Rating: Satisfactory

Self-Monitoring
This facility's self-monitoring program is meeting the requirements of the permit. Samples are taken at sites specified in the permit and the locations are adequate for representative samples. Flow proportioned samples are being collected as required by the permit. Grab samples for fecal coliform, dissolved oxygen and pH are collected properly.

Sampling and analysis is completed on parameters specified by the permit and in the frequencies specified in the permit. The permit requires that samples be collected on the first Wednesday of each month but samples are collected on the first Tuesday of each month. A request to change the sampling date has previously been submitted to the Department. Samples are iced during compositing and proper preservation techniques are used. Containers and sample holding times before analysis conforms with Federal Register 40 CFR 136.3.

Rating: Satisfactory
Requirements: Check that the automatic sampler is pulling the set volume before each sampling event.

Facility Site Review
This 0.08 MGD facility consists of an influent bar screen, aeration pond, chlorine contact chamber, effluent holding pond and effluent pump station to deliver effluent to the golf course.

Operations and Maintenance
At the time of inspection, all treatment units were in service and operating properly with the exception of one aerator that has been removed for repairs. The influent channel was covered in a thick layer of solids. There was duckweed in the aeration basin and holding pond. One tear was noted in the aeration basin liner. All of the lift stations now have two pumps. The effluent pump station has been painted and the jockey pump has been removed as the engineer determined it was not needed. At the time of inspection, there was no discharge. The backflow prevention device at the plant was satisfactorily tested on June 25, 2014. The chlorine scales were calibrated on December 18, 2014.

Rating: Satisfactory
Requirements: 1. Clean the solids from the influent channel. 2. Repair the tear in the aeration basin liner. 3. Repair the aerator.

Sludge Handling/Disposal
This facility currently operates in a manner that does not require routine sludge removal.

Rating: Satisfactory

Laboratory
An on-site laboratory (SCDHEC Laboratory ID 07009, expiration July 3, 2017) at the facility is certified to analyze and report pH, temperature and dissolved oxygen. The other parameters are contracted out to General Environmental Labs (SCDHEC Laboratory ID 27553). A quality assurance manual is available as is a standard operating procedure (SOP).

Rating: Satisfactory

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Schedules in Support
of a
Rate Increase

Historical Test Year 12/31/2014

With Known and Measurable Changes through 12/31/2015

GUASTELLA ASSOCIATES LLC

June 2015

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Schedule A-1

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Comparative Balance Sheets

Water

Assets	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Utility Plant	$3,211,843	$3,851,101	$3,858,489	$3,864,959	$3,814,485	$3,905,259
Accumulated Depreciation	(208,008)	(250,512)	(283,720)	(317,092)	(341,904)	(382,950)
Construction Work in Progress	0	0	0	0	0	29,511
Cash	4,956	5,146	11,842	30,152	369,870	34,576
Accounts Receivable	97,128	212,594	228,274	312,173	205,909	202,206
Provision for Uncollectibles	(45,013)	(67,825)	(67,825)	(67,825)	0	0
Receivables from Associated Co.	0	0	0	0	0	0
Deferred Expenses	0	0	0	202,503	408,150	502,686
Accumulated Deferred Income Tax	0	0	0	0	0	0
Total Assets	$3,060,906	$3,750,504	$3,747,060	$4,024,870	$4,456,510	$4,291,287
Liabilities & Equity						
Common Stock	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Premium on Capital Stock	1,328,041	1,328,041	664,021	664,021	664,021	664,021
Paid in Capital	2,670,205	3,150,047	2,829,589	2,801,457	1,765,964	1,765,964
Retained Earnings	(1,305,625)	(1,211,687)	(212,815)	(65,714)	(69,317)	(18,326)
Notes and Loans Payable	0	0	0	0	1,369,979	1,307,975
Accounts Payable	42,523	75,245	82,296	272,010	61,678	100,225
Advances from Associated Co.	0	(20,586)	(42,109)	(61,577)	(25,615)	(25,615)
Accrued Taxes	0	0	0	2,130	(1,468)	157
Deferred Credits	0	0	0	0	269,779	72,195
Misc Accrued Liabilities	0	0	0	0	12,443	16,771
Misc Operating Reserves	0	10,659	10,659	0	0	0
Contributions in Aid of Construction	354,000	453,500	454,000	455,000	455,500	458,500
Accum Amortization of CIAC	(29,238)	(35,715)	(39,581)	(45,456)	(47,455)	(51,580)
Total Liabilities & Equity	$3,060,906	$3,750,504	$3,747,060	$4,022,870	$4,456,510	$4,291,287

Sewer

Assets	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Utility Plant	$2,679,330	$3,637,399	$3,642,884	$3,645,734	$3,474,402	$4,077,571
Accumulated Depreciation	(258,167)	(317,217)	(347,008)	(376,912)	(369,432)	(404,688)
Construction Work in Progress	0	0	0	18,170	92,951	225,342
Cash	1,479	5,146	11,843	30,152	369,870	34,576
Accounts Receivable	100,732	227,191	279,018	278,142	194,956	198,409
Provision for Uncollectibles	(54,036)	(96,662)	(96,662)	(96,662)	0	0
Receivables from Associated Co.	282,366	5,139	0	0	0	0
Deferred Expenses	0	0	770	202,503	408,150	502,686
Accumulated Deferred Income Tax	0	0	0	0	0	0
Total Assets	$2,751,704	$3,460,995	$3,490,845	$3,701,129	$4,170,897	$4,633,896
Liabilities & Equity						
Common Stock	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Premium on Capital Stock	0	0	664,020	664,020	664,021	664,021
Paid in Capital	2,579,174	3,226,883	3,547,341	3,519,209	2,459,067	2,459,067
Retained Earnings	(15,339)	31,720	(901,197)	(879,745)	(851,298)	(178,173)
Notes and Loans Payable	0	0	0	0	1,369,979	1,307,975
Accounts Payable	52,443	31,915	32,633	272,010	61,678	100,255
Advances from Associated Co.	26,166	(20,586)	(42,109)	(61,577)	(25,615)	(25,615)
Accrued Taxes	(418)	(418)	(418)	1,674	6,440	8,065
Deferred Credits	0	0	0	0	265,359	72,195
Misc Accrued Liabilities	0	0	0	0	36,673	41,001
Misc Operating Reserves	0	5,118	5,118	0	0	0
Contributions in Aid of Construction	116,795	197,295	197,795	199,295	199,795	201,795
Accum. Amortization of CIAC	(8,117)	(11,932)	(13,338)	(14,757)	(16,202)	(17,689)
Total Liabilities & Equity	$2,751,704	$3,460,995	$3,490,845	$3,701,129	$4,170,897	$4,633,896

Schedule A-2

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Comparative Income Statements for 12 Months Ended

	Water					
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Revenues:						
Metered Sales	$152,708	$219,825	$234,370	$281,237	$315,254	$309,860
Availability Billing	38,173	128,829	132,903	154,579	208,970	213,004
Interdepartmental Sales	0	0	0	0	0	0
Other Revenue	1,051	3,775	2,671	5,405	4,908	20,444
Total Operating Revenue	191,932	352,429	369,944	441,221	529,131	543,308
Expenses:						
O&M Expense	200,864	327,999	315,487	338,308	427,489	472,592
Depreciation	29,371	29,209	29,342	29,498	29,981	36,921
Amortization					46,210	46,210
Taxes, Other	616	9,132	10,721	11,684	7,633	8,759
Income Tax	0	0	0	0	0	0
Total Operating Expense	230,851	366,340	355,550	379,490	511,313	564,482
Net Operating Income	(38,919)	(13,911)	14,394	61,731	17,818	(21,174)
Other Income	0	0	0	0	65	122
Interest Expense	0	0	0	0	(6,061)	(88,763)
Other Expenses	0	0	0	0	0	(3,607)
Net Income	($38,919)	($13,911)	$14,394	$61,731	$11,822	($113,422)

	Sewer					
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Revenues:						
Metered Sales	$111,102	$172,731	$171,405	$195,602	$224,335	$246,745
Availability Billing	67,864	159,901	165,380	191,065	271,878	276,661
Interdepartmental Sales	137,080	0	0	0	0	0
Other Revenue	1,966	4,975	2,881	6,609	4,908	9,749
Total Operating Revenue	318,012	337,607	339,666	393,276	501,120	533,155
Expenses:						
O&M Expense	271,573	262,600	250,362	263,682	338,772	382,145
Depreciation	25,884	28,170	28,384	28,486	28,770	36,151
Amortization					46,210	46,210
Taxes, Other	1,963	6,498	9,358	9,645	11,392	8,759
Income Tax	0	0	0	0	0	0
Total Operating Expense	299,420	297,268	288,104	301,813	425,144	473,265
Net Operating Income	18,592	40,339	51,562	91,463	75,977	59,890
Other Income	0	0	0	0	65	122
Interest Expense	0	0	0	0	(6,061)	(88,763)
Other Expenses	0	0	0	0	0	(3,607)
Net Income	$18,592	$40,339	$51,562	$91,463	$69,981	($32,358)

Schedule A-3

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Water and Sewer Operations

Capital Structure and Rate of Return

	Amount	Ratio	Cost Rate	Weighted Cost	Return
L-T Debt	$3,750,000	41.2%	6.20%	2.55%	$232,269
S-T Debt	0	0.0%	2.42%	0.00%	0
Equity	5,358,573	58.8%	10.50%	6.18%	562,910
	$9,108,573	100.0%		8.73%	$795,178

Connecticut DPUC Formula:

Average Large Company	9.69%
Small Company Adder	0.50%
Performance Adder	0.50%
	10.69%

Florida PSC Leverage Graph Formula:

5.6% + (2.279 / Equity Ratio) = ROE

Range	100%	=	7.88%
	40%	=	11.30%
Equity Ratio	58.8%	=	9.47%

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Combined Operating Statement

	Year-End 12/31/2014	Adjustments	12/31/2015 Pro Forma Present Rates	Adjustments	Pro Forma Proposed Rates
Operating Revenue:					
Residential	$307,239	$20,165	$327,404	$383,382	$710,786
Commercial	151,057	(2,549)	148,507	139,082	287,589
Irrigation	98,309	6,559	104,868	108,369	213,238
Availability Billing	489,665	(15,338)	474,327	518,553	992,880
Misc. Other Revenue	30,193	121	30,314	32,915	63,229
Interdepartmental Sales	0	0	0	0	0
Billing Adjustments	0	0	0	0	0
Total Revenues	1,076,463	8,958	1,085,421	1,182,301	2,267,721
Operating Expense:					
Wages	156,602	8,149	164,751	0	164,751
Benefits	8,980	1,706	10,686	0	10,686
Director's Fees	16,500	0	16,500	0	16,500
Sludge Disposal	0	0	0	0	0
Power	115,437	51,281	166,718	0	166,718
Chemicals	9,019	491	9,510	0	9,510
Supplies & Maintenance	27,136	1,407	28,543	0	28,543
Outside Services-Mgmt	157,650	13,714	171,364	0	171,364
Outside Services-Engineering	10,137	9,002	8,013	0	8,013
Outside Services-Accounting	2,761	0	2,761	0	2,761
Outside Services-Legal	23,178	0	23,178	0	23,178
Outside Services-Testing	92,288	0	92,288	0	92,288
Outside Services-Other	38,621	(4,269)	38,621	0	38,621
Other Operating Expenses	0	0	0	0	0
Transportation	2,450	306	2,756	0	2,756
Bad Debt	105,667	(90,905)	14,762	16,090	30,852
Insurance	30,205	18,117	48,322	0	48,322
Regulatory Commission Expense	15,745	(109)	15,636	0	15,636
Other A&G Expenses	36,436	0	36,436	0	36,436
Total O&M Expense	848,814	8,890	850,846	16,090	866,936
Depreciation	73,072	22,194	95,266	0	95,266
Amortization	92,421	113,655	206,076	0	206,076
Revenue Taxes	6,048	806	6,854	7,466	14,320
Property Taxes	4,209	188,092	192,302	0	192,302
Payroll Taxes	13,183	549	13,731	0	13,731
State and Federal Income Taxes	0	0	0	260,495	260,495
Total Operating Expenses	1,037,747	334,186	1,365,076	284,051	1,649,127
Net Operating Income	$38,716		($279,656)		$618,595
Rate Base	$7,014,171		$7,085,475		$7,085,475
Rate of Return	0.55%		-3.95%		8.73%
				Revenue Increase	108.9%

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Rate Base Calculation

	12/31/2014	Test Year Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Plant in Service	$3,899,032	$6,227	$3,905,259	$44,698	$3,949,957
Accumulated Depreciation	(382,950)	0	(382,950)	(46,446)	(429,396)
CWIP	29,511	0	29,511	(29,511)	0
Contributions in Aid of Construction	(458,500)	0	(458,500)	(19,250)	(477,750)
Accum. Amortization of CIAC	51,580	0	51,580	4,508	56,088
Net Plant	3,138,672	6,227	3,144,899	(46,001)	3,098,898
Working Capital (1/5th O&M)	0	93,920	93,920	2,035	95,955
Unamortized Balances	0	0	0	83,650	83,650
Rate Base	$3,138,672	$100,147	$3,238,819	$39,684	$3,278,503

Schedule W-B.1

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Adjustments to Pro Forma Water System Rate Base

1	Adjustments to Utility Plant in Service.		
	a) UPIS Pro Forma Additions		
	Meter & Meter Boxes	$ 15,187	
	b) UPIS Reclass from CWIP		
	Storage Tank Land Costs	29,511	
	Adjustment		$ 44,698
2	Adjust accumulated depreciation to reflect pro forma annual depreciation.		
	a) Annual Depreciation (Schedule C-3)	$ 46,446	
	Adjustment		$ (46,446)
3	Reclass Construction Work in Progress to Plant in Service.		
	Adjustment		$ (29,511)
4	Adjust CIAC for Tap Fees related to pro forma customer growth.		
	Adjustment		$ (19,250)
5	Adjust accumulated amortization of CIAC to reflect pro forma annual amortization.		
	a) Annual Amortization (Schedule C-3)	$ (4,508)	
	Adjustment		$ 4,508
6	Adjust working capital allowance for changes to O&M expenses.		
	Expense Adjustment	10,177	
	Working Capital Allowance (Qtrly Billing)	20%	
	Adjustment		$ 2,035
7	Adjustment to reflect the average unamortized balance of rate case expense and deferred property taxes.		
	Rate Case Costs	95,600	
	Amortization Period (yrs)	4	
	Average Unamortized Balance	83,650	
	Adjustment		$ 83,650

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Utility Plant in Service

	UPIS Acct	Balance 12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Organizational Costs	301	$ 73,597		$ 73,597		$ 73,597
Land	303	56,702	5,128	61,830	29,511	91,341
Wells	307	794,865		794,865		794,865
Misc Equipment-Source	339	9,104		9,104		9,104
Water Treatment Plant	320	321,643	(1,824)	319,819		319,819
Distribution Reservoirs	330	869,379		869,379		869,379
Storage - Other	330A	37,946		37,946		37,946
T&D Plant	311	75,414		75,414		75,414
Mains, Hydrts, Serv	331	1,509,688		1,509,688		1,509,688
Meters	334	8,786	2,922	11,708	15,187	26,896
Other Intangible Plant	348	404		404		404
Plant-Structures	304	104,082		104,082		104,082
Office Equipmt	340	13,820		13,820		13,820
Transportation Equipmt	341	18,067		18,067		18,067
General Plant-Tools & Equip	343	5,536		5,536		5,536
Total Water Plant		$ 3,899,032	$ 6,227	$ 3,905,259	$ 44,698	$ 3,949,957

Schedule W-B.3

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Accumulated Depreciation

	UPIS Acct	Balance 12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Wells	307	$ 88,101		$ 88,101	$ 7,500	$ 95,601
Misc Equipment-Source	339	82		82	172	254
Water Treatment Plant	320	21,797		21,797	3,749	25,546
Distribution Reservoirs	330	60,598		60,598	8,203	68,802
Storage - Other	330A	-		-	3,162	3,162
T&D Plant	311	(3,048)		(3,048)	907	(2,142)
Mains, Hydrts, Serv	331	195,966		195,966	14,245	210,212
Meters	334	649		649	846	1,495
Other Intangible Plant	348	8		8	16	24
General Plant-Structures	304	7,672		7,672	2,836	10,508
Office Equipmt	340	808		808	691	1,499
Transportation Equipmt	341	8,369		8,369	3,011	11,380
General Plant-Tools & Equip	343	1,947		1,947	1,107	3,054
Total Water Plant		$ 382,950	$ -	$ 382,950	$ 46,446	$ 429,396

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water CIAC and Accumulated Amortization

	Balance 12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
CIAC - Tap Fees	$ 339,500	$ -	$ 339,500	$ 19,250	$ 358,750
CIAC - Other	119,000		119,000	-	119,000
Water - CIAC	$ 458,500	$ -	$ 458,500	$ 19,250	$ 477,750
Accum. Amortization - Tap Fees	$ 38,193	$ -	$ 38,193	$ 3,385	$ 41,578
Accum. Amortization - Other	13,387	-	13,387	1,123	14,510
Water - CIAC Amortization	$ 51,580	$ -	$ 51,580	$ 4,508	$ 56,088

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Operating Statement

	Year-End 12/31/2014	Ref.	Adjustments	12/31/2015 Pro Forma Present Rates	Adjustments	Pro Forma Proposed Rates
Operating Revenue:						
Residential	$139,071	E-1	$7,519 (1a)	$146,590	$173,488 (1b)	$320,078
Commercial	72,479	E-1	452 (1c)	72,931	58,633 (1d)	131,564
Irrigation	98,309	E-1	6,559 (1e)	104,868	108,369 (1f)	213,238
Availability Billing	213,004	E-1	(10,848) (1g)	202,156	227,804 (1h)	429,960
Misc. Other Revenue	20,444	E-1	88 (1i)	20,531	22,159 (1j)	42,691
Metered Sales-Other	0		0	0	0	0
Billing Adj (Remove Tap Fees)	0		0	0	0	0
Total Revenues	543,308		3,769	547,077	590,454	1,137,531
Operating Expense:						
Wages	78,301	C-2	4,075 (2)	82,376		82,376
Benefits	4,490	C-2	853 (3)	5,343		5,343
Officer & Director's Fees	8,250	C-2	0 (4)	8,250		8,250
Sludge Disposal	0	C-2		0		0
Purchased Water	0	C-2		0		0
Power	57,581	C-2	25,514 (5)	83,095		83,095
Chemicals	4,510	C-2	230 (6)	4,740		4,740
Supplies & Maintenance	13,849	C-2	695 (7)	14,544		14,544
Outside Services-Mgmt	78,825	C-2	6,857 (8)	85,682		85,682
Outside Services-Engineering	425	C-2	2,145 (9)	2,570		2,570
Outside Services-Accounting	1,381	C-2		1,381		1,381
Outside Services-Legal	11,589	C-2		11,589		11,589
Outside Services-Testing	81,578	C-2		81,578		81,578
Outside Services-Other	31,026	C-2		31,026		31,026
Other Operating Expenses	0	C-2		0		0
Transportation	1,225	C-2	153 (10)	1,378		1,378
Bad Debt	52,834	C-2	(46,158) (11)	6,676	7,203 (20)	13,879
Insurance	18,197	C-2	5,964 (12)	24,161		24,161
Regulatory Commission Expense	10,861	C-2	2,645 (13)	13,506		13,506
Other A&G Expenses	14,683	C-2		14,683		14,683
Total O&M Expense	469,602		2,974	472,576	7,203	479,779
Depreciation, Net	36,921	C-2	5,017 (14)	41,938		41,938
Amortization	46,210	C-2	56,828 (15)	103,038		103,038
Revenue Taxes	3,052	C-2	403 (16)	3,455	3,729 (21)	7,183
Property Taxes	2,105	C-2	89,863 (17)	91,967		91,967
Payroll Taxes	6,591	C-2	274 (18)	6,866		6,866
State and Federal Income Taxes	0	C-2	0 (19)	0	120,533 (22)	120,533
Total Operating Expenses	564,482		155,358	719,840	131,464	851,305
Net Operating Income	($21,174)			($172,763)		$286,227
Rate Base	$3,238,819			$3,278,503		$3,278,503
Rate of Return	-0.65%			-5.27%		8.73%
				Revenue Increase		107.9%

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (1)

a) Adjust residential revenue to reflect the pro forma number of customers at present rates.

Residential Revenue Per Schedule E.1	146,590	
Less: Residential Revenue - Test Year	139,071	
Adjustment		7,519

b) Adjust residential revenue to reflect the pro forma number of customers at proposed rates.

Residential Revenue Per Schedule E.2	320,078	
Less: Residential Revenue Per Schedule E.1	146,590	
Adjustment		173,488

c) Adjust commercial revenue to reflect the pro forma number of customers at present rates.

Commercial Revenue Per Schedule E.1	72,931	
Less: Commercial Revenue - Test Year	72,479	
Adjustment		452

d) Adjust commercial revenue to reflect the pro forma number of customers at proposed rates.

Commercial Revenue Per Schedule E.2	131,564	
Less: Commercial Revenue Per Schedule E.1	72,931	
Adjustment		58,633

e) Adjust irrigation revenue to reflect the pro forma demand at present rates.

Irrigation Revenue Per Schedule E.1	104,868	
Less: Irrigation Revenue - Test Year	98,309	
Adjustment		6,559

f) Adjust irrigation revenue to reflect the pro forma demand at proposed rates.

Irrigation Revenue Per Schedule E.2	213,238	
Less: Irrigation Revenue Per Schedule E.1	104,868	
Adjustment		108,369

g) Adjust availability revenue to reflect the pro forma number of customers at present rates.

Availability Revenue Per Schedule E.1	202,156	
Less: Availability Revenue - Test Year	213,004	
Adjustment		(10,848)

h) Adjust availability revenue to reflect the pro forma number of customers at proposed rates.

Availability Revenue Per Schedule E.2	429,960	
Less: Availability Revenue Per Schedule E.1	202,156	
Adjustment		227,804

i) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at present rates relative to test year total revenue.

	Total Rev.		Misc. Rev.	
Misc Revenue Per Schedule E.1	547,077	3.75%	20,531	
Less: Misc Revenue - Test Year	544,745	3.75%	20,444	
Adjustment				88

j) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at proposed rates relative to pro forma total revenue at present rates.

	Total Rev.		Misc. Rev.	
Misc Revenue Per Schedule E.2	1,137,531	3.75%	42,691	
Less: Misc Revenue Per Schedule E.1	547,077	3.75%	20,531	
Adjustment				22,159

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (2)
Increase the previuos level of wages for 4 full-time shared employees to reflect the wages of 4 full-time 1 part-time shared employee (an effort to reduce OT) including a 3% wage increase for the full-time employees.

Pro forma costs (WP 7.4)	82,376	
Less: Test period costs	78,301	
Adjustment		4,075

Adjustment (3)
Adjust employee insurance benefits to reflect current premiums.

Pro forma costs (WP 7.4)	5,343	
Less: Test period costs	4,490	
Adjustment		853

Adjustment (4)
Adjust Directors' Fees to reflect annual Officer's fees of $12,000 and Directors' fees of $4,500 split between water and sewer operations.

Pro forma costs	8,250	
Less: Test period costs	8,250	
Adjustment		0

Adjustment (5)
Adjust pro forma bills to reflect corrected 2nd and 3rd quarter SCE&G bills and increase the level of power costs for increased system demand.

	Test Period	Factor	Pro Forma	
July-YE Power	39,527			
Annualized SCE&G Corrected Bills	79,053	1.051	83,095	
less: Test Year			57,581	
Adjustment				25,514

Adjustment (6)
Increase the level of chemical costs for increased system demand.

	Test Period	Factor	Pro Forma	
Chemicals	4,510	1.051	4,740	
Adjustment				230

Adjustment (7)
Increase the level of operating supply costs for increased number of customers.

Test period costs	13,849	
Factor for increase in customers	1.050	
	14,544	
Adjustment		695

Adjustment (8)
Adjust Outside Services-Management to reflect contractual annual increases.

Test period costs	78,825	
Factor for increase in customers	1.050	
	82,785	
Annual Increase	3.5%	
	85,682	
Adjustment		6,857

Adjustment (9)
Adjust Outside Services-Engineering to reflect 2011-2014 average cost.

	2011	2012	2013	2014	Average	
Annual Cost	3,200	3,563	3,093	425	2,570	
Less: Test period costs					425	
Adjustment						2,145

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (10)
Adjust transportation costs relative to the number of employees.

	Test Period	Factor	Pro Forma	
Transportation	1,225	1.125	1,378	
Adjustment				153

Adjustment (11)
Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates.

Metered Sales-Bad debt at .5% of revenues	324,390	0.5%	1,622	
Availability Sales-Bad Debt at 2.5% of revenue	202,156	2.5%	5,054	
			6,676	
Test penod costs			52,834	
Adjustment				(46,158)

Adjustment (12)
Adjustment to record general liability insurance to reflect recent premiums.

	Vehicle	Op Bond	General	Flood	Water Syst.	
Pro Forma Expense	2,576	10,500	28,531	6,715	24,161	
Test Period Expense					18,197	
Adjustment						5,964

Adjustment (13)
Adjust Regulatory Expenses to reflect most recent DHEC drinking water annual bills.

	Melrose Area	Haig Pt.		
Pro Forma Expense	6,731	6,775	13,506	
Test Period Expense			10,861	
Adjustment				2,645

Adjustment (14)
Adjustment to reflect the annual depreciation for pro forma plant in service.

Pro Forma Depreciation Expense	41,938	
Test period Depreciation Expense	36,921	
Adjustment		5,017

Adjustment (15)
Adjustment to reflect the amortization of rate case expense and deferred Property Taxes.

	Cost	Years	Annual	
Total rate case cost	95,600	4	23,900	
Property Taxes	263,422	8	32,928	
Annual amortization				56,828

Adjustment (16)
Adjustment to reflect the revenue taxes on pro forma revenue under present rates.

Revenue	547,077	
Revenue Tax Rate	0.63150%	
	3,455	
Less: Test Year Revenue Tax	3,052	
Adjustment		403

Adjustment (17)
Adjustment property Taxes to reflect actual tax bills and rates for updated market values of Land, Building & Contents.

	Market Value	Assessed Value	Effective Tax Rate	Property Tax Amt	
Pro Forma Property Taxes	3,520,560	369,659	0.248790	91,967	
Less: Test Year Property Taxes				2,105	
Adjustment					89,863

Adjustment (18)
Increase the level of payroll taxes to reflect pro forma wages.

Pro forma costs (WP 7.4)	6,866	
Test period costs	6,591	
Adjustment		274

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Water)

Adjustment (19)				
Adjustment to reflect State and Federal Income Taxes.				
Revenue	547,077			
O&M Expense	(472,576)			
Depreciation	(41,938)			
Amortization	(103,038)			
Taxes - Other	(102,288)			
Interest Expense	(83,602)			
State Taxable Income	(256,365)			
State Income Tax Rate		5.000%		
SIT			0	
Federal Taxable Income	(256,365)			
Federal Income Tax Rate		32.466%		
FIT			0	
Pro Forma Income Tax			0	
Test Period Income Tax			0	
Adjustment				0
Adjustment (20)				
Adjust bad debt expense to reflect rate increase.				
Pro forma Bad Debt at Present Rates			6,676	
Rate Increase Percentage			107.9%	
Adjustment				7,203
Adjustment (21)				
Adjustment to reflect the revenue taxes on pro forma revenue under proposed rates.				
Revenue Requirement			1,137,518	
Revenue Tax Rate			0.63150%	
Revenue Tax at Proposed Rates			7,183	
Revenue Tax at Present Rates			3,455	
Adjustment				3,729
Adjustment (22)				
Adjustment to reflect State and Federal Income Taxes.				
Revenue Requirement	1,137,518			
O&M Expense	(479,779)			
Depreciation	(41,938)			
Amortization	(103,038)			
Taxes - Other	(106,017)			
Interest Expense	(83,602)			
State Taxable Income	323,144			
State Income Tax Rate		5.000%		
SIT			16,157	
Federal Taxable Income	306,987			
Federal Income Tax Rate		34.000%		
FIT			104,376	
Pro Forma Income Tax-Proposed Rates			120,533	
Pro Forma Income Tax-Present Rates			0	
Adjustment				120,533

Schedule W-C.2

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Operating Expenses - Water

	Acct	12 Months Ended 12/31/13 Expense	12 Months Ended 12/31/14 Expense	Adjusted Rate Year Expense
Wages	601	89,584	78,301	82,376
Benefits	603	5,495	4,490	5,343
Officer & Director's Fees	604	2,250	8,250	8,250
Sludge Disposal		0	0	0
Purchased Water		0	0	0
Power	615	36,586	57,581	83,095
Chemicals	618	5,936	4,510	4,740
Supplies & Maintenance	620	9,411	13,849	14,544
Outside Services-Mgmt	634	76,157	78,825	85,682
Outside Services-Engineering	631	3,093	425	2,570
Outside Services-Accounting	632	2,496	1,381	1,381
Outside Services-Legal	633	5,819	11,589	11,589
Outside Services-Testing	635	45,770	81,578	81,578
Outside Services-Other	636	11,438	31,026	31,026
Other Operating Expenses		0	0	0
Transportation	650	2,715	1,225	1,378
Bad Debt	670	71,457	52,834	6,676
Insurance	657	31,100	18,197	24,161
Regulatory Commission Expense	667	12,839	13,850	13,506
a) Reclass to Revenue Tax	667	(1,995)	(2,989)	
Other A&G Expenses	675	15,344	14,683	14,683
Total O&M Expense		425,494	469,602	472,576
Depreciation	403	29,981	36,921	41,938
Amortization	407	46,210	46,210	103,038
Revenue Taxes	408	63	63	3,455
a) Reclass from Reg. Comm. Exp.	408	1,995	2,989	0
Property Taxes	408	3,985	2,105	91,967
Payroll Taxes	408	3,586	6,591	6,866
State and Federal Income Taxes	409	0	0	0
Total Operating Expenses		511,313	564,482	719,840

Schedule W-C.3

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Depreciation Expense - Water

	Pro Forma UPIS Balance	Depreciation Rate	Pro Forma Utilization	Pro Forma Depreciation Expense
Wells	$ 794,865	2.000%	47.18%	$ 7,500
Misc Equipment-Source	9,104	4.000%	47.18%	172
Water Treatment Plant	319,819	2.484%	47.18%	3,749
Distribution Reservoirs	869,379	2.000%	47.18%	8,203
Storage - Other	37,946	8.333%	100.00%	3,162
T&D Plant	75,414	2.548%	47.18%	907
Mains, Hydrts, Serv	1,509,688	2.000%	47.18%	14,245
Meters	26,896	6.667%	47.18%	846
Other Intangible Plant	404	4.000%	100.00%	16
General Plant-Structures	104,082	2.725%	100.00%	2,836
Office Equipmt	13,820	5.000%	100.00%	691
Transportation Equipmt	18,067	16.667%	100.00%	3,011
General Plant-Equipment	5,536	20.000%	100.00%	1,107
CIAC - Tap Fees	(358,750)	2.000%	47.18%	(3,385)
CIAC - Other	(119,000)	2.000%	47.18%	(1,123)
	3,307,269			41,938
Depreciation Expense				$ 46,446
Amortization of CIAC				(4,508)
Net Depreciation				$ 41,938

Schedule W-D

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Water Capital Structure and Rate of Return

	Amount	Ratio	Cost Rate	Weighted Cost
L-T Debt	$1,349,760	41.2%	6.20%	2.55%
S-T Debt	0	0.0%	2.42%	0.00%
Equity	1,928,743	58.8%	10.50%	6.18%
	$3,278,503	100.0%		8.73%

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Present Rates
12/31/2014

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,044.0			$62.09		$64,822		$64,822
Total gals		11,552.907	11,553.000		$2.76		$31,886	$31,886
Residential-MUC/BP	447.0			$80.72		$36,082		$36,082
Total gals		6,283.748	2,178.000		$2.44		$5,314	$5,314
	1,491.0	17,836.655	13,731.000			$100,904	$37,201	$138,104
Commercial-DIUC	106.0			$86.93		$9,215		$9,215
Total gals		4,545.880	4,546.000		$2.76		$12,547	$12,547
Commercial-MUC/BP	166.0			$136.60		$22,676		$22,676
Total gals		4,297.362	2,544.703		$1.95		$4,962	$4,962
Multi-Unit-MUC/BP	168.0			$136.60		$22,949		$22,949
Total gals					$1 95		$0	$0
	440.0	8,843.242	7,090.703			$54,839	$17,509	$72,348
Irrigation-DIUC								
0 to 18,000 gals (quarterly)	817.0	8,367.838	8,368.000		$2.76		$23,096	$23,096
18,001 to 60,000 gals		9,829.270	9,829.000		$3.09		$30,372	$30,372
Over 60,000 gals		10,049.342	10,049.000		$3.50		$35,172	$35,172
Irrigation-MUC/BP								
All gallons	184.0	6,356.858	6,356.858		$1.66		$10,552	$10,552
	1,001.0	34,603.308	34,602.858				$99,191	$99,191
Total Water Revenues	2,932.0	61,283.205	55,424.561			$155,743	$153,901	$309,644
						50.3%	49.7%	
Availability Billing-DIUC	2,063.0			$31.04				$64,036
Availability Billing-MUC/BP	1,972.0			$76.38				$150,621
	4,035.0							$214,657
Misc. Revenue (Late Chgs)							3.75%	$20,444
Total Water Operating Revenue								$544,745
Revenue Per Books								$543,308
Difference								$1,436
								0.26%

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Present Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			$62.09		$67,802		$67,802
Total gals		12,038.050	12,038.000		$2.76		$33,225	$33,225
Residential-MUC/BP	492.0			$80.72		$39,714		$39,714
Total gals		6,916.301	2,397.000		$2.44		$5,849	$5,849
	1,584.0	18,954.351	14,435.000			$107,517	$39,074	$146,590
Commercial-DIUC	104.0			$86.93		$9,041		$9,041
Total gals		4,545.000	4,545 000		$2.76		$12,544	$12,544
Commercial-MUC/BP	164.0			$136.60		$22,402		$22,402
Total gals		4,245.452	2,514.000		$1.95		$4,902	$4,902
Multi-Unit-MUC/BP	176.0			$136.60		$24,042		$24,042
Total gals					$1.95		$0	$0
	444.0	8,790.452	7,059.000			$55,485	$17,447	$72,931
Irrigation-DIUC	864.0							
0 to 18,000 gals (quarterly)		8,816.844	8,817.000		$2.76		$24,335	$24,335
18,001 to 60,000 gals		10,356.694	10,357.000		$3.09		$32,003	$32,003
Over 60,000 gals		10,588.575	10,589 000		$3.50		$37,062	$37,062
Irrigation-MUC/BP	200.0							
0 to 18,000 gals (quarterly)		1,487.315	1,487.000		$1.66		$2,468	$2,468
18,001 to 60,000 gals		2,176.337	2,176.000		$1.66		$3,612	$3,612
Over 60,000 gals		3,245.976	3,246.000		$1.66		$5,388	$5,388
	1,064.0	36,671.741	36,672.000				$104,868	$104,868
Total Water Revenues	3,092.0	64,416.544	58,166.000			$163,001	$161,389	$324,390
						50.25%	49.75%	
Availability Billing-DIUC	2,280.0			$31.05				$70,783
Availability Billing-MUC/BP	1,720.0			$76.38				$131,374
	4,000.0							$202,156
Misc. Revenue (Late Chgs)							3.75%	$20,531
Total Water Operating Revenue								$547,077

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Water Billing Analysis at Proposed Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			$149.30		$163,036		$163,036
Total gals		12,038.050	12,038.000		$4 41		$53,088	$53,088
Residential-MUC/BP	492.0			$149.30		$73,456		$73,456
Total gals		6,916.301	6,916.000		$4.41		$30,500	$30,500
	1,584.0	18,954.351	18,954.000			$236,491	$83,587	$320,078
Commercial-DIUC	104.0			$209.01		$21,737		$21,737
Total gals		4,545 000	4,545.000		$4.41		$20,043	$20,043
Commercial-MUC/BP	164.0			$209.01		$34,278		$34,278
Total gals		4,245.452	4,245.000		$4.41		$18,720	$18,720
Multi-Unit-MUC/BP	176.0			$209.01		$36,786		$36,786
Total gals		0.000	0.000		$4.41		$0	$0
	444.0	8,790 452	8,790.000			$92,800	$38,764	$131,564
Irrigation-DIUC	864.0							
0 to 18,000 gals (quarterly)		8,816.844	8,817.000		$4.85		$42,762	$42,762
18,001 to 60,000 gals		10,356.694	10,357.000		$5.73		$59,346	$59,346
Over 60,000 gals		10,588.575	10,589.000		$6.61		$69,993	$69,993
Irrigation-MUC	200 0							
0 to 18,000 gals (quarterly)		1,487 315	1,487.000		$4.85		$7,212	$7,212
18,001 to 60,000 gals		2,176 337	2,176.000		$5.73		$12,468	$12,468
Over 60,000 gals		3,245.976	3,246.000		$6.61		$21,456	$21,456
	1,064.0	36,671 741	36,672.000				$213,238	$213,238
Total Water Revenues	3,092.0	64,416.544	64,416.000			$329,292	$335,589	$664,881
						28.95%	29.50%	
Availability Billing-DIUC	2,280.0			$107.49				$245,077
Availability Billing-MUC/BP	1,720.0			$107 49				$184,883
	4,000.0							$429,960
Misc Revenue (Late Chgs)							3.75%	$42,691
Total Water Operating Revenue								$1,137,531

Schedule W-F.1

Daufuskie Island Utility Company, Inc.

Revenue Requirement

		Water
Equity Return		$202,612
Gross Revenue Tax	0.63150%	2,054
Effective Income Tax Rate	37.3000%	120,533
Equity Grossed-Up	37.6960%	325,198
O&M Expenses		479,779
Depreciation		41,938
Amortization		103,038
Property Taxes		91,967
Payroll Taxes		6,866
Interest Expense		83,602
		807,190
Gross Revenue Tax		5,130
		812,320
Revenue Requirement		$1,137,518
Revenue @ Present Rates		547,077
Percentage Increase		107.9%

Schedule W-F.2

Daufuskie Island Utility Company, Inc.

Rate Design - Water System

Metered Sales

	PRESENT Quarterly Rates	Factor	PROPOSED Quarterly Rates	Percentage Change
Base Service:				
Residential-DIUC	$ 62.09	1.00	$ 149.30	140.5%
Residential-MUC/BP	$ 80.72	1.30	$ 149.30	85.0%
Commercial-DIUC	$ 86.93	1.40	$ 209.01	140.4%
Commercial-MUC/BP	$ 136.60	2.20	$ 209.01	53.0%
Multi-Family-MUC/BP	$ 136.60	2.20	$ 209.01	53.0%
Availability Billing-DIUC	$ 31.05	0.50	$ 107.49	246.2%
Availability Billing-MUC/BP	$ 76.38	1.23	$ 107.49	40.7%
Usage:				
Residential-DIUC	$ 2.76	1.00	$ 4.41	59.8%
Residential-MUC/BP	$ 2.44	0.88	$ 4.41	80.7%
Commercial-DIUC	$ 2.76	1.00	$ 4.41	59.8%
Commercial-MUC/BP	$ 1.95	0.71	$ 4.41	126.2%
Multi-Family-MUC/BP	$ 1.95	0.71	$ 4.41	126.2%
TPL Treatment Plant-DIUC				
0 to 18,000 gals (quarterly)	$ -	0.00	$ -	0.0%
18,001 to 60,000 gals	$ -	0.00	$ -	0.0%
Over 60,000 gals	$ -	0.00	$ -	0.0%
Irrigation-DIUC				
0 to 18,000 gals (quarterly)	$ 2.76	1.00	$ 4.85	75.7%
18,001 to 60,000 gals	$ 3.09	1.12	$ 5.73	85.4%
Over 60,000 gals	$ 3.50	1.27	$ 6.61	88.9%
Irrigation-MUC				
0 to 18,000 gals (quarterly)	$ 1.66	0.60	$ 4.85	192.2%
18,001 to 60,000 gals	$ 1.66	0.60	$ 5.73	245.2%
Over 60,000 gals	$ 1.66	0.60	$ 6.61	298.2%

Pro Forma Existing Rates:

Service Charge Revenue	$ 163,001.24	29.79%	66.75%	Base
Metered Usage Revenue	56,520.06	10.33%	29.50%	Usage
Irrigation Revenue	104,868.49	19.17%		
Availability Revenue	202,156.20	36.95%		
Subtotal	$ 526,545.99			
Late Charge Revenue	20,531.50	3.75%	3.75%	
Total Revenue	$ 547,077.49		100.00%	

Pro Forma Revenue Requirement:		(Sch E.2 Results)	% Increase
Service Charge Revenue	$ 338,922.50	$ 329,291.64	102.0%
Metered Usage Revenue	117,520.09	122,351.04	116.5%
Irrigation Revenue	218,049.21	213,237.84	103.3%
Availability Revenue	420,335.98	429,960.00	112.7%
Subtotal	$ 1,094,827.78	$ 1,094,840.52	
Late Charge Revenue	42,690.39	42,690.88	107.9%
Total Revenue	$ 1,137,518.16	$ 1,137,531.40	107.9%

Service Charge Rates

	Quarterly Bills	Factor	Factored Bills	Proposed Rate
Residential-DIUC	1,092	1.00	1,092.0	$ 149.30
Residential-MUC/BP	492	1.00	492.0	$ 149.30
Commercial-DIUC	104	1.40	145.6	$ 209.01
Commercial-MUC/BP	164	1.40	229.6	$ 209.01
Multi-Family-MUC/BP	176	1.40	246.4	$ 209.01
Availability Billing-DIUC	2,280	0.72	1,641.6	$ 107.49
Availability Billing-MUC/BP	1,720	0.72	1,238.4	$ 107.49
	6,028		5,085 6	
			$ 759,258.48	
			$ 149.30	

Usage Rates	TG	Factor	Factored Bills	Proposed Rate
Residential-DIUC	12,038.0	1.00	12,038.0	$ 4.41
Residential-MUC/BP	6,916.0	1.00	6,916.0	$ 4.41
Commercial-DIUC	4,545.0	1.00	4,545.0	$ 4.41
Commercial-MUC/BP	4,245.0	1.00	4,245.0	$ 4.41
Multi-Family-MUC/BP	-	1.00	0.0	
0 to 18,000 gals (quarterly)	10,304.0	1.10	11,334.4	$ 4.85
18,001 to 60,000 gals	12,533.0	1.30	16,292.9	$ 5.73
Over 60,000 gals	13,835.0	1 50	20,752.5	$ 6.61
	64,416.0		76,123.8	
			$ 335,569.30	
			$ 4.41	

ROA 0199

Schedule S-B

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Rate Base Calculation

	12/31/2014	Test Year Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Plant in Service	$4,065,347	$12,224	$4,077,571	$111,733	$4,189,304
Accumulated Depreciation	(407,074)	2,386	(404,688)	56,230	(348,458)
CWIP	225,342	0	225,342	(225,342)	0
Contributions in Aid of Construction	(201,795)	0	(201,795)	(11,750)	(213,545)
Accum. Amortization of CIAC	17,689	(765)	16,924	1,665	18,589
Net Plant	3,699,510	13,844	3,713,354	(67,464)	3,645,890
Working Capital (1/5th O&M)	75,842	18,078	93,920	1,589	77,431
Unamortized Balances	0	0	0	83,650	83,650
Rate Base	$3,775,352	$31,922	$3,807,275	$17,775	$3,806,971

Schedule S-B.1

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Adjustments to Pro Forma Sewer System Rate Base

1	Adjustments to Utility Plant in Service.			
	a) General Plant-Structures (Lagoon)	$ 225,342		
	Retire Prior Lagoon Pond	(113,609)		
	Adjustment			$ 111,733
2	Adjust accumulated depreciation to reflect pro forma annual depreciation.			
	a) Annual Depreciation (Schedule C-3)	$ 54,993		
	Retire Prior Lagoon Pond	$ (113,609)		
	Adjustment			$ (58,616)
3	Reclass Construction Work in Progress to Plant in Service.			
	Adjustment			$ (225,342)
4	Adjust CIAC for Tap Fees related to pro forma customer growth.			
	Adjustment			$ (11,750)
5	Adjust accumulated amortization of CIAC to reflect pro forma annual amortization.			
	a) Annual Amortization (Schedule C-3)	$ (1,665)		
	Adjustment			$ 1,665
e)	Adjust working capital allowance for changes to O&M expenses.			
	Expense Adjustment	$ 7,945		
	Working Capital Allowance (Qtrly Billing)	20%		
	Adjustment			$ 1,589
f)	Adjustment to reflect the average unamortized balance of rate case expense and deferred property taxes.			
	Rate Case Costs	$ 95,600		
	Amortization Period (yrs)	4		
	Average Unamortized Balance	83,650		
	Adjustment			$ 83,650

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Utility Plant in Service

	UPIS Acct	12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Organizational Costs	351	$ 73,597		$ 73,597	$ -	$ 73,597
Land	353	63,710		63,710	-	63,710
Collection Mains	361	2,118,279		2,118,279	-	2,118,279
Flow Measuring Device	367		1,956	1,956		1,956
WW Pumping Plant	371	158,189	2,549	160,738	-	160,738
WW Treatment & Disposal Plant	380	259,462	4,411	263,873	(113,609)	150,264
T&D-Aeration Motors	380A	31,832		31,832	-	31,832
Plant Sewers	381	818,187		818,187		818,187
Outfall Sewer Lines	382	66,704		66,704	-	66,704
Power Generation Equip	355	4,632	3,308	7,940		7,940
Other Intangible Plant	398	204		204	-	204
General Plant-Structures	354	437,859		437,859	225,342	663,201
Office Equipment	390	14,117		14,117	-	14,117
Transportation Equipmt	391	5,103		5,103	-	5,103
General Plant-Tools & Equip	393	13,472		13,472	-	13,472
Total Sewer Plant		$ 4,065,347	$ 12,224	$ 4,077,571	$ 111,733	$ 4,189,304

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Accumulated Depreciation

	UPIS Acct	12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
Collection Mains	361	$ 251,560		$ 251,560	$ 16,513	$ 268,073
Flow Measuring Device	367			-	46	46
WW Pumping Plant	371	7,029		7,029	2,426	9,455
WW Treatment & Disposal Plant	380	21,103	(2,386)	18,717	(109,899)	(91,181)
T&D-Aeration Motors	380A	2,274		2,274	4,547	6,821
Plant Sewers	381	105,306		105,306	7,210	112,516
Outfall Sewer Lines	382	8,997		8,997	473	9,470
Power Generation Equip	355	34		34	122	157
Other Intangible Plant	398	4		4	8	12
General Plant-Structures	354	3,835		3,835	18,071	21,906
Office Equipment	390	791		791	706	1,497
Transportation Equipmt	391	2,224		2,224	850	3,075
General Plant-Tools & Equip	393	3,918		3,918	2,694	6,612
Total Sewer Plant		$407,074	-$2,386	$404,688	-$56,230	$348,458

Schedule S-B.4

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer CIAC and Accumulated Amortization

	12/31/2014	Additions	Adjusted Test Year	Pro Forma Adjustment	Pro Forma 12/31/2015
CIAC - Tap Fees	$ 201,795	$ -	$ 201,795	$ 11,750	$ 213,545
CIAC - Other	-	-		-	-
Water - CIAC	$ 201,795	$ -	$ 201,795	$ 11,750	$ 213,545
Accum. Amortization - Tap Fees	$ 17,689	$ -	$ 16,924	$ 1,665	$ 18,589
Accum. Amortization - Other	-	-		-	-
Water - CIAC Amortization	$ 17,689	$ -	$ 16,924	$ 1,665	$ 18,589

Schedule S-C

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Operating Statement

	Year-End 12/31/2014	Ref.	Adjustments	12/31/2015 Pro Forma Present Rates	Adjustments	Pro Forma Proposed Rates
Operating Revenue:						
Residential	$168,168	E.1	$12,646 (1a)	$180,814	$209,894 (1b)	$390,708
Commercial	78,577	E.1	(3,001) (1c)	75,576	80,448 (1d)	156,024
Irrigation	0		0	0	0	0
Availability Billing	276,661	E.1	(4,490) (1e)	272,171	290,749 (1f)	562,920
Misc. Other Revenue	9,749	E.1	33 (1g)	9,783	10,755 (1h)	20,538
Interdepartmental Sales	0		0	0	0	0
Billing Adj (Remove Tap Fees)	0		0	0	0	0
Total Revenues	533,155		5,188	538,343	591,847	1,130,190
Operating Expense:						
Wages	78,301	C.2	4,074 (2)	82,376		82,376
Benefits	4,490	C.2	853 (3)	5,343		5,343
Officer & Director's Fees	8,250	C.2	0 (4)	8,250		8,250
Sludge Disposal	0	C.2		0		0
Power	57,856	C.2	25,767 (5)	83,623		83,623
Chemicals	4,510	C.2	260 (6)	4,770		4,770
Supplies & Maintenance	13,288	C.2	711 (7)	13,999		13,999
Outside Services-Mgmt	78,825	C.2	6,857 (8)	85,682		85,682
Outside Services-Engineering	9,712	C.2	(4,269) (9)	5,443		5,443
Outside Services-Accounting	1,381			1,381		1,381
Outside Services-Legal	11,589	C.2		11,589		11,589
Outside Services-Testing	10,711	C.2		10,711		10,711
Outside Services-Other	7,596	C.2		7,596		7,596
Other Operating Expenses	0	C.2		0		0
Transportation	1,225	C.2	153 (10)	1,378		1,378
Bad Debt	52,834	C.2	(44,747) (11)	8,086	8,887 (20)	16,973
Insurance	12,008	C.2	12,153 (12)	24,161		24,161
Regulatory Commission Expense	4,884	C.2	(2,754) (13)	2,130		2,130
Other A&G Expenses	21,753	C.2		21,753		21,753
Total O&M Expense	379,211		(942)	378,270	8,887	387,157
Depreciation	36,151	C.2	17,177 (14)	53,328		53,328
Amortization	46,210	C.2	56,828 (15)	103,038		103,038
Revenue Taxes	2,996	C.2	404 (16)	3,400	3,737 (21)	7,137
Property Taxes	2,105	C.2	98,230 (17)	100,334		100,334
Payroll Taxes	6,591	C.2	274 (18)	6,866		6,866
State and Federal Income Taxes	0	C 2	0 (19)	0	139,962 (22)	139,962
Total Operating Expenses	473,265		171,971	645,236		797,822
Net Operating Income	$59,890			($106,893)		$332,368
Rate Base	$3,775,352			$3,806,971		$3,806,971
Rate of Return	1.59%			-2.81%		8.73%
					Revenue Increase	109.9%

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (1)

a) Adjust residential revenue to reflect the pro forma number of customers at present rates.

Residential Revenue Per Schedule E.1	180,814	
Less. Residential Revenue Per Books (Test Year)	170,724	
		10,090

b) Adjust residential revenue to reflect the pro forma number of customers at proposed rates.

Residential Revenue Per Schedule E.2	390,708	
Less: Residential Revenue Per Schedule E.1	180,814	
		209,894

c) Adjust commercial revenue to reflect the pro forma number of customers at present rates.

Commercial Revenue Per Schedule E.1	75,576	
Less: Commercial Revenue Per Books (Test Year)	74,396	
		1,180

d) Adjust commercial revenue to reflect the pro forma number of customers at proposed rates.

Commercial Revenue Per Schedule E.2	156,024	
Less: Commercial Revenue Per Schedule E.1	75,576	
		80,448

e) Adjust availability revenue to reflect the pro forma number of customers at present rates

Availability Revenue Per Schedule E.1	272,171	
Less: Availability Revenue - Test Year	281,635	
Adjustment		(9,464)

f) Adjust availability revenue to reflect the pro forma number of customers at proposed rates.

Availability Revenue Per Schedule E.2	562,920	
Less: Availability Revenue Per Schedule E.1	272,171	
Adjustment		290,749

g) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at present rates relative to test year total revenue.

	Total Rev.		Misc. Rev.	
Misc Revenue Per Schedule E.1	538,343	1.82%	9,783	
Less: Misc Revenue - Test Year	536,503	1.82%	9,749	
Adjustment				33

h) Adjust miscellaneous revenues to reflect percentage of pro forma total revenue at proposed rates relative to pro forma total revenue at present rates.

	Total Rev.		Misc. Rev.	
Misc Revenue Per Schedule E.2	1,130,190	1.82%	20,538	
Less: Misc Revenue Per Schedule E.1	538,343	1.82%	9,783	
Adjustment				10,755

Adjustment (2)

Increase the previuos level of wages for 4 full-time shared employees to reflect the wages of 4 full-time 1 part-time shared employee (an effort to reduce OT) including a 3% wage increase for the full-time employees.

Pro forma costs (WP 7.4)	82,376	
Less: Test period costs	78,301	
Adjustment		4,074

Adjustment (3)

Adjust employee insurance benefits to reflect current premiums.

Pro forma costs (WP 7.4)	5,343	
Less: Test period costs	4,490	
Adjustment		853

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (4)
Adjust Directors' Fees to reflect annual Officer's fees of $12,000 and Directors' fees of $4,500 split between water and sewer operations.

Pro forma costs	8,250	
Less: Test period costs	8,250	
Adjustment		0

Adjustment (5)
Adjust pro forma bills to reflect corrected 2nd and 3rd quarter SCE&G bills and increase the level of power costs for increased system demand.

	Test Period	Factor	Pro Forma	
July-YE Power	39,527			
Annualized SCE&G Corrected Bills	79,053	1.058	83,623	
less: Test Year			57,856	
Adjustment				25,767

Adjustment (6)
Increase the level of chemical costs for increased system demand.

	Test Period	Factor	Pro Forma	
Test period costs	4,510	1.058	4,770	
Adjustment				260

Adjustment (7)
Increase the level of operating supply costs for increased number of customers.

Test period costs	13,288	
Factor for increase in customers	1.054	
	13,999	
Adjustment		711

Adjustment (8)
Adjust Outside Services-Management to reflect contractual annual increases.

Test period costs	78,825	
Factor for increase in customers	1.050	
	82,785	
Annual Increase	3.5%	
	85,682	
Adjustment		6,857

Adjustment (9)
Adjust Outside Services-Engineering to reflect 2010-2013 average cost to normalize expense

	2011	2012	2013	2014	Average	
Annual Cost	2,350	6,617	3,093	9,712	5,443	
Less: Test period costs					9,712	
Adjustment						(4,269)

Adjustment (10)
Adjust transportation costs relative to the number of employees.

	Test Period	Factor	Pro Forma	
Transportation	1,225	1.125	1,378	
Adjustment				153

Adjustment (11)
Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates.

Metered Sales-Bad debt at .5% of revenues	256,389	0.5%	1,282	
Availability Sales-Bad Debt at 2.5% of revenue	272,171	2.5%	6,804	
			8,086	
Test period costs			52,834	
Adjustment				(44,747)

Adjustment (12)
Adjustment to record general liability insurance to reflect recent premiums.

	Vehicle	Op Bond	General	Flood	Sewer Syst.	
Pro Forma Expense	2,576	10,500	28,531	6,715	24,161	
Test Period Expense					12,008	
Adjustment						12,153

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (13)
Adjust Regulatory Expenses to reflect most recent DHEC land application permits.

	Golf Course	WWTP		
Pro Forma Expense	800	1,330	2,130	
Test Period Expense			4,884	
Adjustment				(2,754)

Adjustment (14)
Adjustment to reflect the annual depreciation for pro forma plant in service.

Pro Forma Depreciation Expense	53,328	
Test period Depreciation Expnse	36,151	
Adjustment		17,177

Adjustment (15)
Adjustment to reflect the amortization of rate case expense and deferred Property Taxes.

	Cost	Years	Annual	
Total rate case cost	95,600	4	23,900	
Property Taxes	263,422	8	32,928	
Annual amortization				56,828

Adjustment (16)
Adjustment to reflect the revenue taxes on pro forma revenue under present rates.

Revenue	538,343	
Revenue Tax Rate	0.63150%	
	3,400	
Less: Test Year Revenue Tax	2,996	
Adjustment		404

Adjustment (17)
Adjustment property Taxes to reflect actual tax bills and rates for updated market values of Land, Building & Contents

	Market Value	Assessed Value	Effective Tax Rate	Property Tax Amt	
Pro Forma Property Taxes	3,840,846	403,289	0.24879	100,334	
Less: Test Year Property Taxes				2,105	
Adjustment					98,230

Adjustment (18)
Increase the level of payroll taxes to reflect pro forma wages.

Pro forma costs (WP 7.4)	6,866	
Test period costs	6,591	
Adjustment		274

Adjustment (19)
Adjustment to reflect State and Federal Income Taxes.

Revenue	538,343			
O&M Expense	(378,270)			
Depreciation	(53,328)			
Amortization	(103,038)			
Taxes - Other	(110,600)			
Interest Expense	(97,078)			
State Taxable Income	(203,970)			
State Income Tax Rate		5.000%		
SIT			0	
Federal Taxable Income	(203,970)			
Federal Income Tax Rate		30.788%		
FIT			0	
Pro Forma Income Tax			0	
Test Period Income Tax			0	
Adjustment				0

Daufuskie Island Utility Company, Inc.
Adjustments to Operating Statement (Sewer)

Adjustment (20)				
Adjust bad debt expense to reflect rate increase.				
Pro forma Bad Debt at Present Rates			8,086	
Rate Increase Percentage			109.9%	
Adjustment				8,887
Adjustment (21)				
Adjustment to reflect the revenue taxes on pro forma revenue under proposed rates.				
Revenue Requirement			1,130,171	
Revenue Tax Rate			0.63150%	
Revenue Tax at Proposed Rates			7,137	
Revenue Tax at Present Rates			3,400	
Adjustment				3,737
Adjustment (22)				
Adjustment to reflect State and Federal Income Taxes.				
Revenue	1,130,171			
O&M Expense	(387,157)			
Depreciation	(53,328)			
Amortization	(103,038)			
Taxes - Other	(114,337)			
Interest Expense	(97,078)			
State Taxable Income	375,233			
State Income Tax Rate		5.000%		
SIT			18,762	
Federal Taxable Income	356,471			
Federal Income Tax Rate		34.000%		
FIT			121,200	
Pro Forma Income Tax-Proposed Rates			139,962	
Pro Forma Income Tax-Present Rates			0	
Adjustment				139,962

Schedule S-C.2

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Operating Expenses - Sewer

	Acct	12 Months Ended 12/31/13 Expense	12 Months Ended 12/31/14 Expense	Adjusted Rate Year Expense
Wages	701	49,297	78,301	82,376
Benefits	703	5,495	4,490	5,343
Officer & Director's Fees	704	2,250	8,250	8,250
Sludge Disposal		0	0	0
Power	715	36,833	57,856	83,623
Chemicals	718	5,936	4,510	4,770
Supplies & Maintenance	720	8,185	13,288	13,999
Outside Services-Mgmt	734	76,157	78,825	85,682
Outside Services-Engineering	731	3,093	9,712	5,443
Outside Services-Accounting	732	1,999	1,381	1,381
Outside Services-Legal	733	5,819	11,589	11,589
Outside Services-Testing	735	16,949	10,711	10,711
Outside Services-Other	736	11,426	7,596	7,596
Other Operating Expenses		0	0	0
Transportation	750	2,714	1,225	1,378
Bad Debt	770	69,756	52,834	8,086
Insurance	757	18,952	12,008	24,161
Regulatory Commission Expense	767	12,572	7,818	2,130
a) Reclass to Revenue Tax	767	(1,889)	(2,934)	
Other A&G Expenses	775	11,339	21,753	21,753
Total O&M Expense		336,882	379,211	378,270
Depreciation	403	28,770	36,151	53,328
Amortization	407	46,210	46,210	103,038
Revenue Taxes	408	63	63	3,400
a) Reclass from Reg. Comm. Exp.	408	1,889	2,934	
Property Taxes	408	3,985	2,105	100,334
Payroll Taxes	408	7,345	6,591	6,866
State and Federal Income Taxes	409	0	0	0
Total Operating Expenses		425,143	473,265	645,236

Schedule S-C.3

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Depreciation Expense - Sewer

	Pro Forma UPIS Balance	Depreciation Rate	Pro Forma Utilization	Pro Forma Depreciation Expense
Collection Mains	$ 2,118,279	2.198%	35.47%	$ 16,513
Flow Measuring Device	1,956	6.667%	35.47%	46
WW Pumping Plant	160,738	4.255%	35.47%	2,426
WW Treatment & Disposal Plant	150,264	2.484%	35.47%	1,324
T&D-Aeration Motors	31,832	14.286%	100.00%	4,547
Plant Sewers	818,187	2.484%	35.47%	7,210
Outfall Sewer Lines	66,704	2.000%	35.47%	473
Power Generation Equip	7,940	4.348%	35.47%	122
Other Intangible Plant	204	4.000%	100.00%	8
General Plant-Structures	663,201	2.725%	100.00%	18,071
Office Equipment	14,117	5.000%	100.00%	706
Transportation Equipmt	5,103	16.667%	100.00%	850
General Plant-Tools & Equip	13,472	20.000%	100.00%	2,694
CIAC - Tap Fees	(213,545)	2.198%	35.47%	(1,665)
CIAC - Other	-	2.000%	35.47%	-
	3,838,452			53,328
Depreciation Expense				$ 54,993
Amortization of CIAC				(1,665)
Net Depreciation				$ 53,328

Schedule S-D

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Sewer Capital Structure and Rate of Return

	Amount	Ratio	Cost Rate	Weighted Cost
L-T Debt	$1,567,330	41.2%	6.20%	2.55%
S-T Debt	0	0.0%	2.42%	0.00%
Equity	2,239,641	58.8%	10.50%	6.18%
	$3,806,971	100.0%		8.73%

Schedule S-E

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Present Rates
12/31/2014

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,044.0			$110.38		$115,237		$115,237
Total gals		11,552.907	11,553.000		$1.32		$15,250	$15,250
Residential-MUC/BP	443.0			$80.72		$35,759		$35,759
Total gals		6,222.398	2,296.390		$1.95		$4,478	$4,478
	1,487.0	17,775.305	13,849.390			$150,996	$19,728	$170,724
Commercial-DIUC	102.0			$178.21		$18,177		$18,177
Total gals		4,495.220	4,495.000		$1.32		$5,933	$5,933
Commercial-MUC/BP	166.0			$136.60		$22,676		$22,676
Total gals		3,996.052	2,389.990		$1.95		$4,660	$4,660
Multi-Unit-MUC/BP	168.0			$136.60		$22,949		$22,949
Total gals					$1.95		$0	$0
	436.0	8,491.272	6,884.990			$63,802	$10,594	$74,396
Total Sewer Revenues	1,923.0	26,266.577	20,734.379			$214,798	$30,322	$245,119
						87.6%	12.4%	
Availability Billing-DIUC	2,063.0			$55.19				$113,857
Availability Billing-MUC/BP	1,972.0			$85.08				$167,778
	4,035.0							$281,635
Misc. Revenue (Late Chgs)							1.82%	$9,749
Interdepartmental Revenue								$0
Total Sewer Operating Revenue								$536,503
Revenue Per Books								$533,155
Difference								$3,349

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Present Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			$110.38		$120,535		$120,535
Total gals		12,038.050	12,038.000		$1.32		$15,890	$15,890
Residential-MUC/BP	492.0			$80.72		$39,714		$39,714
Total gals		6,916.301	2,397.000		$1.95		$4,674	$4,674
	1,584.0	18,954.351	14,435.000			$160,249	$20,564	$180,814
Commercial-DIUC	102.0			$178.21		$18,177		$18,177
Total gals		4,585.124	4,585.000		$1.32		$6,052	$6,052
Commercial-MUC/BP	164.0			$136.60		$22,402		$22,402
Total gals		4,245.452	2,514.000		$1.95		$4,902	$4,902
Multi-Unit-MUC/BP	176.0			$136.60		$24,042		$24,042
Total gals					$1.95		$0	$0
	442.0	8,830.577	7,099.000			$64,621	$10,955	$75,576
Total Sewer Revenues	2,026.0	27,784.927	21,534.000			$224,871	$31,519	$256,389
						87.7%	12.3%	
Availability Billing-DIUC	2,280.0			$55.19				$125,833
Availability Billing-MUC/BP	1,720.0			$85.08				$146,338
	4,000.0							$272,171
Misc. Revenue (Late Chgs)							1.82%	$9,783
Interdepartmental Revenue								$0
Total Sewer Operating Revenue								$538,343

Schedule S-E.2

Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems

Sewer Billing Analysis at Proposed Rates
Pro Forma Year-End 12/31/2015

	Quarterly Bills	Annual Usage (tg)	Billed Usage (tg)	Quarterly Base Chg	Usage Charge	Base Chg Revenue	Usage Revenue	Total Revenue
Residential-DIUC	1,092.0			$218.18		$238,253		$238,253
Total gals		12,038.050	12,038.000		$2.38		$28,650	$28,650
Residential-MUC/BP	492.0			$218.18		$107,345		$107,345
Total gals		6,916.301	6,916.000		$2.38		$16,460	$16,460
	1,584.0	18,954.351	18,954.000			$345,597	$45,111	$390,708
Commercial-DIUC	102 0			$305.45		$31,156		$31,156
Total gals		4,585.124	4,585.000		$2.38		$10,912	$10,912
Commercial-MUC/BP	164.0			$305.45		$50,094		$50,094
Total gals		4,245.452	4,245.000		$2.38		$10,103	$10,103
Multi-Unit-MUC/BP	176.0			$305.45		$53,759		$53,759
Total gals		0.000	0.000		$2.38		$0	$0
	442.0	8,830.577	8,830.000			$135,009	$21,015	$156,024
Total Sewer Revenues	2,026.0	27,784.927	27,784.000			$480,606	$66,126	$546,732
						87.91%	12.09%	
Availability Billing-DIUC	2,280.0			$140.73				$320,864
Availability Billing-MUC/BP	1,720.0			$140 73				$242,056
	4,000.0							$562,920
Misc. Revenue (Late Chgs)							1.82%	$20,538
Interdepartmental Revenue								$0
Total Sewer Operating Revenue								$1,130,190

Schedule S-F.1

Daufuskie Island Utility Company, Inc.

Revenue Requirement

		Sewer
Equity Return		$235,271
Gross Revenue Tax	0.63150%	2,385
Effective Income Tax Rate	37.3000%	139,962
Equity Grossed-Up	37.6960%	377,617
O&M Expenses		387,157
Depreciation		53,328
Amortization		103,038
Property Taxes		100,334
Payroll Taxes		6,866
Interest Expense		97,078
		747,801
Gross Revenue Tax		4,752
		752,553
Revenue Requirement		$1,130,171
Revenue @ Present Rates		538,343
Percentage Increase		109.9%

Daufuskie Island Utility Company, Inc.

Rate Design - Sewer System

Metered Sales

	PRESENT Quarterly Rates	Factor	PROPOSED Quarterly Rates	Percentage Change
Base Service:				
Residential-DIUC	$ 110.38	1.00	$ 218.18	97.7%
Residential-MUC/BP	$ 80.72	0.73	$ 218.18	170.3%
Commercial-DIUC	$ 178.21	1.61	$ 305.45	71.4%
Commercial-MUC/BP	$ 136.60	1.24	$ 305.45	123.6%
Multi-Family-MUC/BP	$ 136.60	1.24	$ 305.45	123.6%
Availability Billing-DIUC	$ 55.19	0.50	$ 140.73	155.0%
Availability Billing-MUC/BP	$ 85.08	0.77	$ 140.73	65.4%
Usage:				
Residential-DIUC	$ 1.32	1.00	$ 2.38	80.3%
Residential-MUC/BP	$ 1.95	1.48	$ 2.38	22.1%
Commercial-DIUC	$ 1.32	1.00	$ 2.38	80.3%
Commercial-MUC/BP	$ 1.95	1.48	$ 2.38	22.1%
Multi-Family-MUC/BP	$ 1.95	1.48	$ 2.38	22.1%

Pro Forma Existing Rates:

Service Charge Revenue	$ 224,870.62	41.77%	92.33%	Base
Metered Usage Revenue	31,518.81	5.85%	5.85%	Usage
Irrigation Revenue	-	0.00%		
Availability Revenue	272,170.80	50.56%		
Subtotal	$ 528,560.23			
Late Charge Revenue	9,782.88	1.82%	1.82%	
Total Revenue	$ 538,343.11		100.00%	

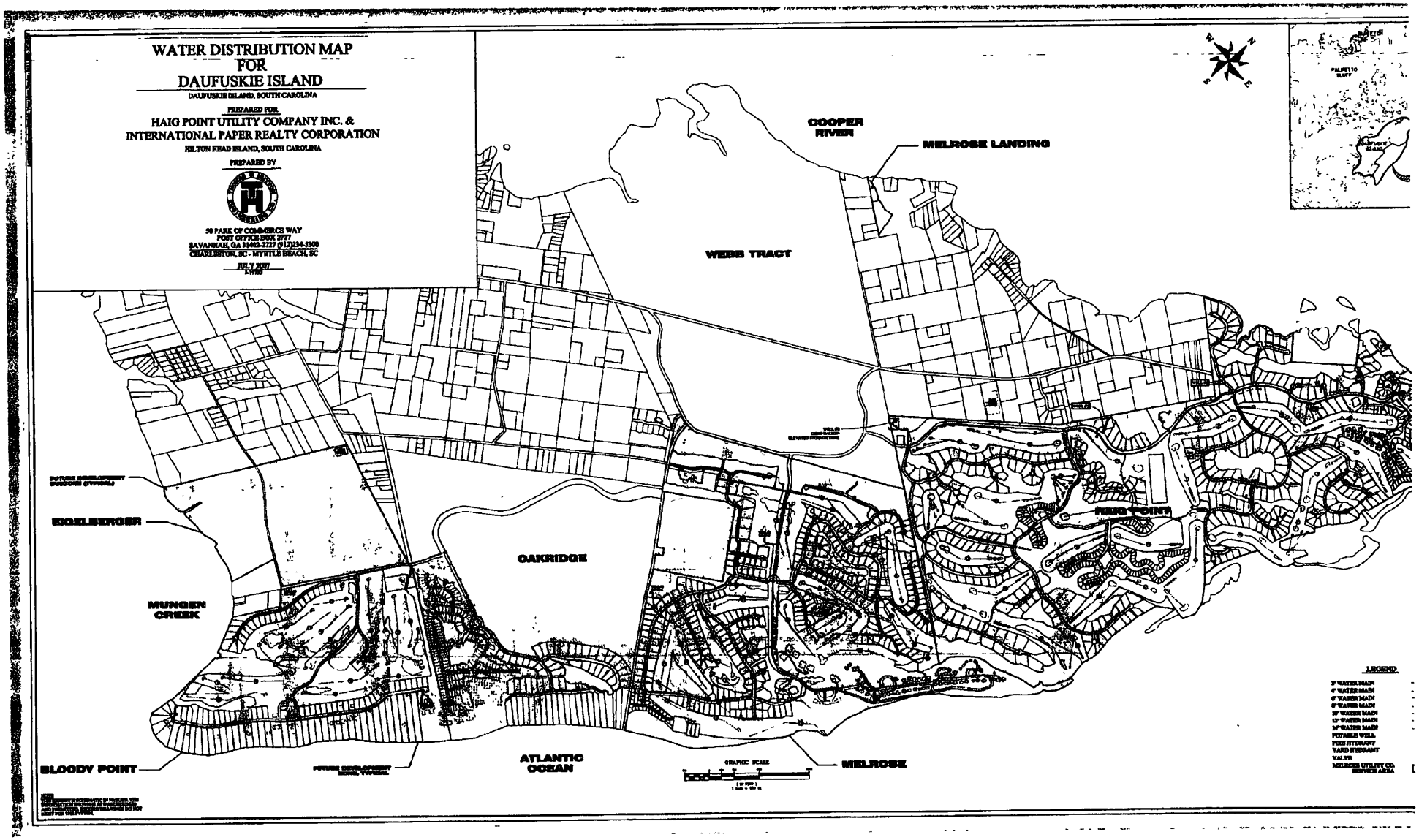
Pro Forma Revenue Requirement:		(Sch E.2 Results)	% Increase
Service Charge Revenue	$ 472,082.10	$ 480,606.02	113.7%
Metered Usage Revenue	66,169.01	66,125.92	109.8%
Irrigation Revenue	-	-	
Availability Revenue	571,381.73	562,920.00	106.8%
Subtotal	$ 1,109,632.84	$ 1,109,651.94	
Late Charge Revenue	20,537.69	20,538.04	109.9%
Total Revenue	$ 1,130,170.53	$ 1,130,189.98	109.9%

Service Charge Rates

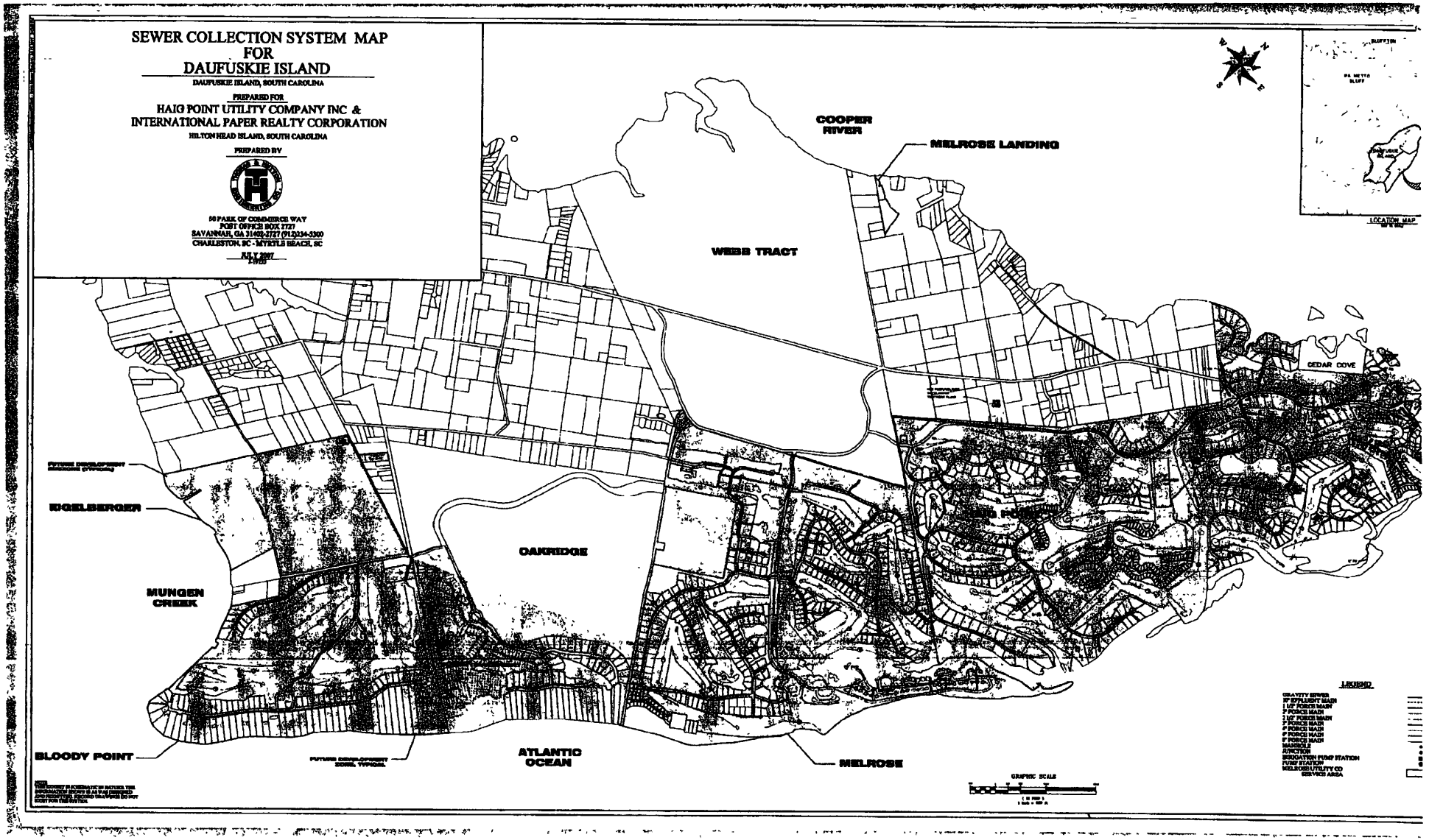
	Quarterly Bills	Factor	Factored Bills	Proposed Rate
Residential-DIUC	1,092	1.00	1,092.0	$ 218.18
Residential-MUC/BP	492	1.00	492.0	$ 218.18
Commercial-DIUC	102	1.40	142.8	$ 305.45
Commercial-MUC/BP	164	1.40	229.6	$ 305.45
Multi-Family-MUC/BP	176	1.40	246.4	$ 305.45
Availability Billing-DIUC	2,280	0.645	1,470.6	$ 140.73
Availability Billing-MUC/BP	1,720	0.645	1,109.4	$ 140.73
	6,026		4,782 8	
			$ 1,043,463.83	
			$ 218.18	

Usage Rates	TG	Factor	Factored Bills	Proposed Rate
Residential-DIUC	12,038.0	1.00	12,038.0	$ 2.38
Residential-MUC/BP	6,916.0	1.00	6,916.0	$ 2.38
Commercial-DIUC	4,585.0	1.00	4,585.0	$ 2.38
Commercial-MUC/BP	4,245.0	1.00	4,245.0	$ 2.38
Multi-Family-MUC/BP	-	1.00	0.0	$ 2.38
0 to 18,000 gals (quarterly)	-		0.0	
18,001 to 60,000 gals	-		0.0	
Over 60,000 gals	-		0.0	
	27,784.0		27,784.0	
			$ 66,169.01	
			$ 2.38	

ROA 0217


WATER DISTRIBUTION MAP
FOR
DAUFUSKIE ISLAND
DAUFUSKIE ISLAND, SOUTH CAROLINA
PREPARED FOR
HAIG POINT UTILITY COMPANY INC. &
INTERNATIONAL PAPER REALTY CORPORATION
HILTON HEAD ISLAND, SOUTH CAROLINA
PREPARED BY
50 PARK OF COMMERCE WAY
POST OFFICE BOX 7727
SAVANNAH, GA 31403-7727 (912)354-4300
CHARLESTON, SC - MYRTLE BEACH, SC
JULY 2007
COOPER
RIVER
MELROSE LANDING
WEBB TRACT
EIGELBERGER
MUNGEN
CREEK
OAKRIDGE
HAIG POINT
BLOODY POINT
ATLANTIC
OCEAN
MELROSE
GRAPHIC SCALE
LEGEND

ROA 0218


SEWER COLLECTION SYSTEM MAP
FOR
DAUFUSKIE ISLAND
DAUFUSKIE ISLAND, SOUTH CAROLINA
PREPARED FOR
HAIG POINT UTILITY COMPANY INC &
INTERNATIONAL PAPER REALTY CORPORATION
HILTON HEAD ISLAND, SOUTH CAROLINA
PREPARED BY
50 PARK OF COMMERCE WAY
POST OFFICE BOX 1727
SAVANNAH, GA 31402-1727 (912)234-5300
CHARLESTON, SC - MYRTLE BEACH, SC
JULY 2007
COOPER RIVER
MELROSE LANDING
WEBB TRACT
CEDAR COVE
RIGELSBERGER
OAKRIDGE
MUNGEN CREEK
BLOODY POINT
ATLANTIC OCEAN
MELROSE
LEGEND
GRAPHIC SCALE
LOCATION MAP

ROA 0219

Work Paper 1

Desrtyste Island Utility Company, Inc.
System Utilization Calculation

	Design System Build-Out		Test Year End: Active Connections		Test Year End: Availability (all lots sold)		Pro Forma: Active Connections		Pro Forma: Availability (all lots sold)					
	Customers	ERCs	Customers	ERCs	Customers	ERCs	Customers	ERCs	Customers	ERCs	1.428			
Residential-Help Pt./Cedar Cove	753	753.0	269	269.0	483	483.0	273	273.0	480	480.0	753	753		
Residential-Melrose	482	482.0	94	94.0	-388	-388.0	101	101.0	381	381.0	482	482		492
Residential-Bloody Point	108	108.0	15	34.2	88	154.8	22	39.6	-83	-148.4	105	105		113
Commercial-Club	29	91.1	28	62.3	(1)	(1.2)	28	61.1	-	(0.0)	25	25		492
Commercial-Plant (water only)	1	20.6	-	20.6	-	(0.0)	1	20.6	-	(0.0)	1	1	1,380.0	
Commercial-Melrose	34	34.0	39	38.0	-	-	38	38.0	-	(2.0)	36	36		
Multi-Family-Melrose	22	15.4	2	14.7	-	0.7	22	15.4	-	-	21	22		
Commercial-Bloody Point	5	7.5	3	7.5	-	-	5	7.5	-	-	5	5	674	
													454	0.66
Residential Irrigation (water only)-HP	585	913.9	161	259.8	N/A	653.1	176	275.0	N/A	638.9				
Commercial Irrigation (water only)-HP	25	268.0	45	468.1	N/A	(200.1)	45	468.1	N/A	(200.1)				
Residential Irrigation (water only)-MSP	66	301.9	26	91.0	N/A	210.0	31	106.5	N/A	195.5				
Commercial Irrigation (water only)-MVBP	17	42.5	19	47.5	N/A	(5.0)	19	47.5	N/A	(5.0)				
Water System-Help Pt.	2,120	3,080.0	712	1,394.7	887	1,687.3	786	1,453.5	944	1,626.7	1,678	1,994	3,080.00	
System Utilization Percentage			33.60%	45.28%				47.19%						
Sewer System-Help Pt.	1,427	1,982.0	482	939.4	887	1,038.2	486	954.5	944	1,008.3	1,428	1,429.0		
System Utilization Percentage				33.69%				35.47%						

		Residential				Commercial				Res. Irrig		Comm. Irrig		System	Water Percent	Sewer Percent						
		Help Pt	Cedar	Melrose	Bloody Pt	Club	Plant	Melrose	Multi-Fam	Bloody Pt	Help Pt	Melrose	Help Pt	Melrose	Total	Utilized	Utilized					
Customers		725	18	482	109	29	1	34	22	8	585	86	25	17	2,120							
Factor		1.00	1.00	1.00	1.80	2.44	20.60	1.00	0.70	1.50	1.62	3.50	10.40	2.50								
Total ERCs		725.0	18.0	482.0	189.0	61.1	20.6	34.0	19.4	7.5	913.9	301.0	260.0	42.5	3,080.1							
	1987	18.0				18.0	20.6				21.8		42.5		113.0	3.67%	1.82%					
	1988	31.0				13.5	20.6				37.8		58.5		160.1	5.51%	2.81%					
	1989	41.0				10.8	20.6				49.8		76.6		198.8	6.45%	3.74%					
	1990	50.0				16.6	20.6				60.7		79.5		218.3	7.09%	4.32%					
	1991	59.0				18.9	20.6				70.4		84.7		253.6	8.23%	5.05%					
	1992	67.0				23.9	20.6				81.3		88.7		280.8	9.44%	5.65%					
	1993	76.0				26.2	20.6				94.7		111.5		330.9	10.74%	6.76%					
	1994	87.0		5.8	2.0	29.2	20.6	2.9			105.6		124.2	2.0	377.6	12.26%	8.12%					
	1995	98.0		10.8	4.0	32.2	20.6	4.8			118.9	4.8	137.0	4.0	427.7	14.05%	8.91%					
	1996	107.0		15.0	8.0	35.2	20.6	6.8			129.0	8.8	149.8	8.0	483.4	15.70%	10.91%					
	1997	116.0		20.0	9.0	38.2	20.6	8.8		1.0	143.2	13.0	162.5	8.0	540.9	17.75%	12.33%					
	1998	125.0		25.0	10.0	41.2	20.6	10.5		2.0	153.3	17.0	175.3	10.0	594.4	19.30%	14.02%					
	1999	136.0		30.0	12.0	44.2	20.6	12.0		2.0	167.5	21.0	188.1	12.0	647.3	21.08%	15.43%					
	2000	147.0		35.0	14.0	47.2	20.6	14.0		2.0	178.4	25.0	200.8	14.0	698.0	22.96%	16.81%					
	2001	157.0		40.0	16.0	47.2	20.6	16.0	2.4	3.0	190.5	30.0	200.8	18.0	741.6	24.08%	18.26%					
	2002	168.0		45.0	18.0	50.2	20.6	18.0	4.4	3.5	201.5	34.0	213.8	22.0	798.7	25.81%	19.79%					
	2003	172.0		50.0	20.0	56.1	20.6	20.5	6.4	4.5	208.7	38.0	251.4	26.0	878.8	28.41%	21.53%					
	2004	197.0		55.0	22.0	61.1	20.6	22.0	8.4	5.5	238.1	43.0	260.0	29.0	962.8	31.25%	24.56%				962.8	43.5
	2005	208.0	0.0	60.0	24.0	61.1	20.6	24.0	10.4	6.5	252.4	47.0	260.0	32.0	1,006.0	32.66%	26.59%					
	2006	218.0	0.0	65.0	26.0	61.1	20.6	26.0	12.4	7.5	265.8	51.0	260.0	35.0	1,049.3	34.07%	27.64%					
	2007	230.0	0.0	70.0	28.0	61.1	20.6	28.0	14.4	7.5	278.1	55.0	260.0	38.0	1,091.7	35.44%	28.47%	#REF!	42.7%	1,005.9							
	2008	241.0	0.0	75.0	30.0	61.1	20.6	30.0	16.4	7.5	292.3	59.0	260.0	41.0	1,134.0	36.82%	29.83%	219429.6	47.1%	1,488.0	156.0							
	2009	252.0	0.0	79.0	32.4	61.1	20.6	32.0	18.4	8.0	306.5	73.5	260.0	42.5	1,185.9	38.87%	31.43%		52.7%	1,822.0	156.0							
	2010	263.0	0.0	80.0	34.2	61.1	20.6	33.0	21.0	8.0	310.7	73.5	260.0	42.5	1,201.3	39.01%	32.06%	#REF!	57.7%	1,778.0	156.0							
	2011	268.0	0.0	85.0	39.6	61.1	20.6	33.0	21.0	8.0	325.9	77.0	260.0	42.5	1,244.2	40.40%	33.57%	256188.36	62.7%	1,831.0	156.0							
	2012	298.0	0.0	85.0	49.6	61.1	20.6	33.0	21.0	8.0	354.4	84.5	260.0	42.5	1,310.1	42.53%	36.17%		67.7%	2,084.0	156.0							
	2013	318.0	0.0	100.0	57.6	61.1	20.6	33.0	21.0	8.0	384.4	91.5	260.0	42.5	1,418.2	46.04%	39.04%		72.7%	2,238.0	156.0							
	2014	338.0	12.0	115.0	66.6	61.1	20.6	33.0	21.0	8.0	440.3	98.5	260.0	42.5	1,525.3	49.66%	43.37%		77.7%	2,392.0	156.0							
	2015	389.0	15.0	145.0	78.2	61.1	20.6	33.0	21.0	8.0	480.3	119.0	260.0	42.5	1,678.7	54.53%	48.46%		82.7%	2,546.0	156.0							
	2016	421.0	18.0	160.0	81.8	61.1	20.6	33.0	21.0	8.0	540.1	140.0	260.0	42.5	1,829.0	59.38%	53.39%		87.7%	2,700.0	156.0							
	2017	456.0	19.0	180.0	104.4	61.1	20.6	33.0	21.0	8.0	599.2	161.0	260.0	42.5	1,971.7	64.02%	58.46%		100.0%	3,080.1	172.8							
	2018	503.0	18.0	215.0	117.0	61.1	20.6	33.0	21.0	8.0	632.8	182.0	260.0	42.5	2,114.5	68.65%	63.37%											
	2019	541.0	18.0	240.0	129.6	61.1	20.6	33.0	21.0	8.0	676.4	203.0	260.0	42.5	2,237.2	73.26%	68.27%											
	2020	579.0	18.0	265.0	142.2	61.1	20.6	33.0	21.0	8.0	724.5	224.0	260.0	42.5	2,369.9	77.93%	73.17%											
	2021	617.0	18.0	290.0	154.8	61.1	20.6	33.0	21.0	8.0	770.7	245.0	260.0	42.5	2,542.8	82.59%	78.09%											
	2022	655.0	18.0	315.0	167.4	61.1	20.6	33.0	21.0	8.0	816.8	266.0	260.0	42.5	2,683.3	87.16%	82.89%											
	2023	693.0	18.0	340.0	179.4	61.1	20.6	33.0	21.0	8.0	862.9	287.0	260.0	42.5	2,824.4	91.70%	87.64%											
	2024	730.0	18.0	364.0	189.4	61.1	20.6	33.0	21.0	8.0	907.8	308.0	260.0	42.5	2,960.3	96.11%	92.18%											
Future ERCs		474.0	18.0	284.0	131.2	0.0	0.0	0.0	0.0	0.0	597.1	234.5	0.0	0.0	1,758.8							
Customers		474	18	284	84	0	0	0	0	0	399	67	0	0	1,322							
	2008	248.6				29	1				145			28	453							
	2009	#REF!				#REF!	1															

		Residential				Commercial				Res. Irrig		Comm. Irrig		System	Help Pt Percent of Res. Irrigation	Melrose Percent of Res. Irrigation
Connections		Help Pt	Cedar	Melrose	Bloody Pt	Club	Plant	Melrose	Multi-Fam	Bloody Pt	Help Pt	Melrose	Help Pt	Melrose	Total		
	1987	18	0			4.0	1.0				14.0		4.0		41.0	78%	
	1988	31	0			3.0	1.0				23.0		8.0		65.0	74%	
	1989	41	0			7.0	1.0				31.0		7.0		87.0	76%	
	1990	50	0			7.0	1.0				39.0		7.0		103.0	76%	
	1991	59	0			8.0	1.0				44.0		8.0		118.0	76%	
	1992	67	0			9.0	1.0				50.0		9.0		136.0	75%	
	1993	76	0			11.0	1.0				59.0		11.0		160.0	76%	
	1994	87	0			12.0	1.0				65.0		12.0		177.0	78%	
	1995	98	0			13.0	1.0				74.0		13.0		199.0	78%	
	1996	107	0			14.0	1.0				80.0		14.0		216.0	79%	
	1997	116	0			16.0	1.0				88.0		16.0		240.0	79%	
	1998	125	0			17.0	1.0				98.0		17.0		259.0	79%	
	1999	136	0			18.0	1.0				104.0		18.0		279.0	79%	
	2000	147	0			18.0	1.0				110.0		18.0		290.0	79%	
	2001	157	0			18.0	1.0				118.0		18.0		314.0	79%	
	2002	168	0			21.0	1.0				125.0		21.0		334.0	79%	
	2003	172	0			24.0	1.0				128.0		24.0		350.0	79%	
	2004	197	0			25.0	1.0				148.0		29.0		398.0	79%	
	2005	208	0			25.0	1.0				140.0		29.0		408.0	82%	
	2006	218	0			25.0	1.0				152.0		25.0		422.0	69%	
	2007	230	0			25.0	1.0				164.0		25.0		445.0	71%	
	2008	241	0			25.0	1.0				165.0		25.0		457.0	68%	
	2008	255	0	79	18	25.0	1.0	33	22	8	167.0	21	25.0	17	668.0	85%	22%
	2010	256.00	0.00	80.00	19.00	25.00	1.00	33.00	30.00	8.00	170.00	21.00	25.00	17.00	683.00	88%	21%
	2011	266.00	3.00	85.00	27.00	25.00	1.00	33.00	30.00	8.00	180.00	27.00	25.00	17.00	718.00	81%	21%
	2012	286.00	6.00	90.00	27.00	25.00	1.00	33.00	30.00	8.00	200.00	24.00	25.00	17.00	773.00	88%	20%
	2013	316.00	9.00	100.00	32.00	25.00	1.00	33.00	30.00	8.00	230.00	28.00	25.00	17.00	853.00	71%	19%
	2014	336.00	12.00	115.00	37.00	25.00	1.00	33.00	30.00	8.00	260.00	28.00	25.00	17.00	950.00	78%	19%
	2015	388.00	15.00	140.00	44.00	25.00	1.00	33.00	30.00	8.00	290.00	34.00	25.00	17.00	1,046.00	72%	18%
	2016	427.00	18.00	165.00	51.00	25.00	1.00	33.00	30.00	8.00	315.00	40.00	25.00	17.00	1,153.00	71%	19%
	2017	466.00	18.00	190.00	58.00	25.00	1.00	33.00	30.00	8.00	343.00	46.00	25.00	17.00	1,267.00	71%	19%
	2018	503.00	18.00	215.00	65.00	25.00	1.00	33.00	30.00	8.00	372.00	52.00	25.00	17.00	1,382.00	71%	19%
	2019	541.00	18.00	240.00	72.00	25.00	1.00	33.00	30.00	8.00	401.00	58.00	25.00	17.00	1,497.00	72%	19%
	2020	579.00	18.00	265.00	79.00	25.00	1.00	33.00	30.00	8.00	431.00	64.00	25.00	17.00	1,613.00	72%	19%
	2021	617.00	18.00	290.00	86.00	25.00	1.00	33.00	30.00	8.00	475.00	70.00	25.00	17.00	1,663.00	75%	19%
	2022	655.00	18.00	315.00	93.00	25.00	1.00	33.00	30.00	8.00	503.00	76.00	25.00	17.00	1,790.00	75%	19%
	2023	693.00	18.00	340.00	98.00	25.00	1.00	33.00	30.00	8.00	535.00	82.00	25.00	17.00	1,903.00	75%	19%
	2024	730.00	18.00	364.00	103.00	25.00	1.00	33.00	30.00	8.00	565.00	88.00	25.00	17.00	2,005.00	76%	19%

| | | | | | | | | | | | | | | |

Land Application Discharge Permit

This State Permit Certifies That

Haig Point/Melrose WWTP
Haig Point/Melrose Wastewater Treatment Company, Inc.

has been granted permission to discharge treated wastewater from a facility located at

the southwest boundary of Haig Point on Daufuskie Island
(Lat. 32^0 07' 68" N; Long. 80^0 51' 42" W)
Beaufort County

to property located at

a 27 holes golf course and drive range at Haig Point and
a 18 holes golf course and drive range at Melrose

in accordance with effluent limitations, monitoring requirements and other conditions set forth in Parts I, II, III, IV and V hereof. This permit is issued in accordance with the provisions of the Pollution Control Act of South Carolina (S.C. Code Sections 48-1-10 et seq., 1976), Regulation 61-9 and with the provisions of the Federal Clean Water Act (PL 92-500), as amended, 33 U.S.C. 1251 et seq., the "Act."

Jeffrey P. deBessonet, P.E., Director
Water Facilities Permitting Division
Bureau of Water

Issued: January 15, 2010

Expires: January 31, 2020

Effective: February 1, 2010

Permit No.: ND0062286

D H E C
PROMOTE PROTECT PROSPER
South Carolina Department of Health and Environmental Control

ROA 0221

STATE OF SOUTH CAROLINA

Public Water System
OPERATING PERMIT

Issued in accordance with the provisions of the State Safe Drinking Water Act (SDWA) (S.C. Code Ann. § 44-55-10 et seq., 1976) and the State Primary Drinking Water Regulations (SPDWR) (R.61-58).

This Permit is Issued to: *CK MATERIALS LLC*
CONTACT: JOHN F GUASTELLA
GUASTELLA ASSOCIATES LLC

For the Operation of a Public Water System Serving: *DAUFUSKIE ISLAND UTILITY COMPANY INC (HAIG POINT)*

County: *Beaufort*

Public Water System Name: *DAUFUSKIE ISLAND UTILITY COMPANY INC (HAIG POINT)*

Permit Number: *0750036*

Date of Issuance: *July 10, 2008*
MODIFIED: September 23, 2010

Jeffrey P. deBessonet, P.E., Director
Water Facilities Permitting Division

D H E C
PROMOTE PROTECT PROSPER
South Carolina Department of Health and Environmental Control

STATE OF SOUTH CAROLINA

Public Water System
OPERATING PERMIT

Issued in accordance with the provisions of the State Safe Drinking Water Act (SDWA) (S.C. Code Ann. § 44-55-10 et seq., 1976) and the State Primary Drinking Water Regulations (SPDWR) (R.61-58).

This Permit is Issued to: *CK MATERIALS LLC*
CONTACT: JOHN F GUASTELLA, GUASTELLA ASSOCIATES LLC

For the Operation of a Public Water System Serving: *MELROSE UTILITY COMPANY INC*

County: *Beaufort*

Public Water System Name: *MELROSE UTILITY COMPANY INC*

Permit Number: *0750043*

Date of Issuance: *October 12, 2006*
MODIFIED: January 21, 2010

Jeffrey P. deBessonet, P.E., Director
Water Facilities Permitting Division

D H E C
PROMOTE PROTECT PROSPER
South Carolina Department of Health and Environmental Control

Land Application Discharge Permit

This State Permit Certifies That

DAUFUSKIE ISLAND PROPERTIES, LLC (Owner)
Daufuskie Island Club Development

has been granted permission to discharge treated wastewater from a facility located at

the southern end of Daufuskie Island
Beaufort County

to property located at

Bloody Point 18 hole golf course by spray irrigation

in accordance with effluent limitations, monitoring requirements and other conditions set forth in Parts I, II, III, IV and V hereof. This permit is issued in accordance with the provisions of the Pollution Control Act of South Carolina (S.C. Code Sections 48-1-10 et seq., 1976), Regulation 61-9 and with the provisions of the Federal Clean Water Act (PL 92-500), as amended, 33 U.S.C. 1251 et seq., the "Act."

Jeffrey P. deBessonet, P.E., Director
Water Facilities Permitting Division
Bureau of Water

Issued: February 25, 2009 **Expires:** September 30, 2018

Effective: April 1, 2009 **Permit No.:** ND0068179

D H E C
PROMOTE PROTECT PROSPER
South Carolina Department of Health and Environmental Control

Land Application Discharge Permit

This State Permit Certifies That

Haig Point/Melrose WWTP
Haig Point/Melrose Wastewater Treatment Company, Inc.

has been granted permission to discharge treated wastewater from a facility located at

the southwest boundary of Haig Point on Daufuskie Island
(Lat. 32^0 07' 68" N; Long. 80^0 51' 42" W)
Beaufort County

to property located at

a 27 holes golf course and drive range at Haig Point and
a 18 holes golf course and drive range at Melrose

in accordance with effluent limitations, monitoring requirements and other conditions set forth in Parts I, II, III, IV and V hereof. This permit is issued in accordance with the provisions of the Pollution Control Act of South Carolina (S.C. Code Sections 48-1-10 et seq., 1976), Regulation 61-9 and with the provisions of the Federal Clean Water Act (PL 92-500), as amended, 33 U.S.C. 1251 et seq., the "Act."

Jeffrey P. deBessonet, P.E., Director
Water Facilities Permitting Division
Bureau of Water

Issued: January 15, 2010

Expires: January 31, 2020

Effective: February 1, 2010

Permit No.: ND0062286

D H E C
PROMOTE PROTECT PROSPER
South Carolina Department of Health and Environmental Control

ROA 0225

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

CLERK'S OFFICE

NOTICE OF FILING AND HEARING AND PREFILE TESTIMONY DEADLINES (2nd Revised)

DOCKET NO. 2014-346-WS

Application of Daufuskie Island Utility Company, Inc. for Approval of an Adjustment for Water and Sewer Rates, Terms and Conditions

Daufuskie Island Utility Company, Inc. (Daufuskie or the Company) filed an Application for Approval of an Adjustment in Rates and Charges for Water and Sewer Services with the Public Service Commission of South Carolina (the Commission). The Application was filed in accordance with S.C. Code Ann. §§58-5-210 et seq. and 10 S. C. Code Ann. Regs. 103-512.4, 103-712.4, and 103-823.

As justification for the Company's request to adjust its rates, Daufuskie states that the current rates do not enable the Company to cover its cost of providing service and earn a fair return on its investment, and the Company has not applied for rate relief since 2012 and has not established unified rates under its current consolidated status. Daufuskie states that the proposed rates in its Application are essential for the Company to continue to provide its customers with adequate water and wastewater service. Further, the proposed rates would establish uniform rates for all of the Company's customers, including Haig Point and Melrose service area customers.

The complete rate schedule and the current rates of Haig Point Utility Company, Inc. and Melrose Utility Company are included in the Company's Application, and the Application can be viewed on the Commission's website at www.psc.sc.gov.

THE PROPOSED NEW RATES AND CHARGES ARE SET FORTH BELOW:

	RESIDENTIAL RATES	
WATER		**Proposed Rates**
Tapping Fees & ¾" Meter Box		$500.00
Base Quarterly Charge		$149.30
Consumption Charge (per 1,000 Gallons)	**0 to 22,500 Gallons per Quarter**	$4.41
	Over 22, 500 Gallons	$4.41
SEWER		**Proposed Rates**
Tapping Fees & Service Lateral		**$500.00**
Base Quarterly Charge		**$218.18**
Volumetric Charge (per 1,000 Gallons)	**0 to 22,500 Gallons per Quarter**	**$2.38**
	Over 22,500 Gallons	**$2.38**
IRRIGATION		**Proposed Rates**
Tapping Fees & ¾" Meter Box		$500.00
Consumption Charge (per 1,000 Gallons)	**0 to 18,000 Gallons per Quarter**	$4.85
	18,001 to 60,000 Gallons	$5.73
	Over 60,000 Gallons	$6.61
	COMMERCIAL RATES	
WATER		**Proposed Rates**
Tapping Fees per Hotel or Inn Room		$250.00
Tapping Fees up to 1-1/2" Meter		$500.00
Tapping Fees 2" or 3" Meter		$1,500.00
Tapping Fees for 6" Meter		$3,500.00

Public Service Commission of South Carolina • Attention: Clerk's Office • Post Office Drawer 11649 • Columbia, SC 29211

Note: Larger Meters on a Case by Case Basis		
Base Quarterly Charge		$209.01
Consumption Charge (per 1,000 Gallons)	0 to 22,500 Gallons per Quarter	$4.41
	Over 22,500 Gallons	$4.41
SEWER		**Proposed Rates**
Tapping Fees per Hotel or Inn Room		**$250.00**
Tapping Fees 4" – 8" Sewer Pipe		**$500.00**
Base Quarterly Charge		**$305.45**
Volumetric Charge (per 1,000 Gallons)	**0 to 22,500 Gallons per Quarter**	**$2.38**
	Over 22,500 Gallons	**$2.38**
IRRIGATION		**Proposed Rates**
Tapping Fees & ¾" Meter Box		**$500.00**
Consumption Charge (per 1,000 Gallons)	**0 to 18,000 Gallons per Quarter**	**$4.85**
	18,001 to 60,000 Gallons	**$5.73**
	Over 60,000 Gallons	**$6.61**
	AVAILABILITY RATES (QUARTERLY)	
WATER		**$107.49**
SEWER		**$140.73**

A copy of the company's complete application, as well as the proposed rates, charges and tariffs can be found on the Commission's website at www.psc.sc.gov under Docket No. 2014-346-WS. Additionally, a copy of the application is available from the office of G. Trenholm Walker, Esquire, Pratt-Thomas Walker, 16 Charlotte Street, Charleston, South Carolina 29403.

PLEASE TAKE NOTICE that a hearing, pursuant to 10 S.C. Code Ann. Regs. 103-817 and S. C. Code Ann. §58-5-240, on the above matter has been scheduled to begin on **Wednesday, October 28, 2015, at 10:30 a.m.**, before the Commission in the Commission's Hearing Room at 101 Executive Center Drive, Saluda Building, Columbia, South Carolina 29210 for the purpose of receiving testimony and evidence from all interested parties. The hearing may continue through October 29, 2015, if necessary.

Any person who wishes to participate in this matter as a party of record should file a Petition to Intervene in accordance with the Commission's Rules of Practice and Procedure on or before **July 27, 2015**. For the receipt of future Commission correspondence, please include an email address in the Petition to Intervene. ***Please refer to Docket No. 2014-346-WS and mail a copy to all other parties in this docket.*** Any person who wishes to testify and present evidence at the hearing should notify, in writing, the Commission; the Office of Regulatory Staff at 1401 Main Street, Suite 900, Columbia, South Carolina 29201; and the company at the above address, on or before **July 27, 2015**. ***Please refer to Docket No. 2014-346-WS.***

INSTRUCTIONS TO ALL PARTIES OF RECORD (Applicant, Petitioners, and Intervenors only): All Parties of Record must prefile testimony with the Commission and with all Parties of Record. Prefiled Testimony Deadlines: Applicant's **Direct Testimony** Due: **9/1/2015**; Other Parties of Record **Direct Testimony** Due: **9/15/2015**; Applicant's **Rebuttal Testimony** Due: **9/22/2015**; and Other Parties of Record **Surrebuttal Testimony** Due: **9/29/2015**. All prefiled testimony deadlines are subject to the information as posted on www.psc.sc.gov under ***Docket No. 2014-346-WS.***

Any person who wishes to request that the Commission hold a public hearing in his or her county of residence in order to hear comments from the utility's customers, should notify, in writing, the Commission; the Office of Regulatory Staff at 1401 Main Street, Suite 900, Columbia, South Carolina 29201; and the company at the above address, on or before **August 7, 2015.** ***Please refer to Docket No. 2014-346-WS.***

For the most recent information regarding this docket, including changes in scheduled dates included in this Notice, please refer to www.psc.sc.gov and ***Docket No. 2014-346-WS.***

PLEASE TAKE NOTICE that any person who wishes to have his or her comments considered as part of the official record of this proceeding **MUST** present such comments in person to the Commission during the hearing.

Persons seeking information about the Commission's procedures should contact the Commission at (803) 896-5100 or visit its website at www.psc.sc.gov.

6/25/15

Amended Statement of Proposed Rates

				Haig Pt. Present Rates	Melrose Present Rates	DIUC Proposed Rates
I	**Residential Rates**					
	A. Water:					
	1)	Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
	2)	Base Quarterly Charge		$62.09	$80.72	$149.30
	3)	Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4 41
			Over 22,500 gallons	$2 76	$2.44	$4 41
	B. Sewer:					
	1)	Tapping Fees & Service Lateral		$500.00	$500 00	$500.00
	2)	Base Quarterly Charge		$110.38	$80.72	$218 18
	3)	Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.38
			Over 22,500 gallons	$1.32	$1.95	$2.38
	C. Irrigation:					
	1)	Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500.00
	2)	Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4 85
			18,001 to 60,000 gallons	$3.09	$1.66	$5.73
			Over 60,000 gallons	$3.50	$1 66	$6 61
II	**Commercial Rates**					
	A Water:					
	1)	Tapping Fees per Hotel or Inn Room		$250.00	$250 00	$250 00
	2)	Tapping Fees up to 1-1/2" Meter		$500.00	$500.00	$500.00
	3)	Tapping Fees 2" or 3" Meter		$1,500.00	$1,500.00	$1,500.00
	4)	Tapping Fees for 6" Meter		$3,500.00	$3,500.00	$3,500.00
		Note: Larger meters on a case by case basis				
	5)	Base Quarterly Charge		$86.93	$136.60	$209.01
	6)	Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0 00	$4.41
			Over 22,500 gallons	$2.76	$1 95	$4.41
	B Sewer:					
	1)	Tapping Fees per Hotel or Inn Room		$250.00	$250.00	$250.00
	2)	Tapping Fees 4" - 8" Sewer Pipe		$500.00	$500.00	$500.00
	2)	Base Quarterly Charge		$178.21	$136 60	$305.45
	3)	Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2 38
			Over 22,500 gallons	$1.32	$1.95	$2.38
	C. Irrigation:					
	1)	Tapping Fees & 3/4" Meter Box		$500.00	$500.00	$500 00
	2)	Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4.85
			18,001 to 60,000 gallons	$3 09	$1.66	$5 73
			Over 60,000 gallons	$3.50	$1.66	$6.61

III. **Availability Rates (Quarterly)**

A. Water

	$31 05	$76.38	$107.49

B Sewer

	$55.19	$85.08	$140.73

IV. **Special Conditions**

A. Tapping Fees:
Remain as in original tariff.

B. Backflow Prevention:
Remain as in original tariff

C. System Development Charge:
Remain as in original tariff

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS

IN RE: Application of Daufuskie Island Utility Company, Inc. for Approval of an Adjustment for Water and Sewer Rates, Terms, and Conditions	)	**PETITION TO INTERVENE**

Haig Point Club and Community Association, Inc. ("HPCCA"), Melrose Property Owner's Association, Inc. ("MPOA"), and Bloody Point Property Owner's Association ("BPPOA") (together "Petitioners") hereby petition the South Carolina Public Service Commission ("Commission") pursuant to Rule 103-825 of its Rules of Practice and Procedure (10 S.C. Code Ann. Regs. 103-825), to be allowed to intervene as formal parties of record in the above-captioned proceeding. In support of this Petition, Petitioners would show as follows:

1. On June 9, 2015, Daufuskie Island Utility Company, Inc. ("DIUC" or "Applicant") filed an Application for approval to increase its rates for water and sewer services. The Application was filed pursuant to S.C. Code Ann. §58-5-210 *et. seq.*, and 10 S.C. Code Ann. Regs. 103-514.4, 103-712.4, and 103-834. According to the Application, DIUC provides general utility services on Daufuskie Island, Beaufort County, South Carolina. Within its service area, DIUC provides water supply and distribution service and sewer collection and treatment services to residential and commercial customers. In addition, the Company provides water service for landscaping and golf course irrigation. The subdivisions or tracts included in the Applicant's

service area are Haig Point, Cedar Cove Subdivision, Oakridge Subdivision, Beachfield Subdivision, Melrose, and Bloody Point.

Among other things, and according to DIUC, the Application seeks to:

- Eliminate the current water and sewer usage allowances that currently exist for Melrose and Bloody Point, and apply volumetric rates to water and sewer usage by all customers, as it currently applies under the DIUC tariff;
- Apply inclining block rates to all irrigation customers, as currently applicable in the DIUC tariff; and
- Establish uniform rates for all DIUC customers.

Upon information and belief, DIUC's proposed rates will result in an overall revenue increase of 108%, but some of the proposed rates would be between two and three times higher than the equivalent current rates, depending upon customer and usage.

2. HPCCA, MPOA and BPPOA are associations whose members include Daufuskie Island property owners and residents, many of whom are DIUC's residential and commercial water and sewer customers.

3. The Commission's Docketing department issued several Notices of Filing in this matter, the most recent on June 25, 2015, and scheduled a public hearing for Wednesday October 25, 2015. That Notice of Filing set a deadline for intervention in this Docket of July 27, 2015.

4. The Petitioners have a vital interest in this proceeding. Petitioners' members who are DIUC residential and commercial water and sewer customers will be affected by the proposed rate increase because it would:

a. dramatically increase their water and sewer service rates;

b. change the rate structure for many customers; and

c. for the first time, establish unified system-wide water and sewer rates.

5. At this time, HPCCA, MPOA and BPPOA oppose the proposed rate increase, but do not possess sufficient information to form a more detailed position in this proceeding. Participation in this Docket will allow Petitioners to obtain the information necessary to establish that position.

6. Petitioners seek to participate in this proceeding in order to more fully establish and assert their position and in order to assist in addressing the important issues raised. Petitioners should therefore be permitted to intervene in this proceeding in order to participate fully and present testimony and other evidence as appropriate.

7. Petitioners' authorized representatives in this proceeding are:

John F. Beach
John J. Pringle, Jr.
Lyndey Ritz Zwing
ADAMS AND REESE LLP
1501 Main Street, 5th Floor
Post Office Box 2285 (29202)
Columbia, South Carolina 29201
Telephone: (803) 254-4190
Facsimile: (803) 779-4749
Email: john.beach@arlaw.com
jack.pringle@arlaw.com
lyndey.zwing@arlaw.com

8. Petitioners request that they be allowed to intervene in the above-captioned matter, that they be permitted to participate fully as parties of record, to present testimony, cross-examine witnesses, and assert whatever position they deem to be appropriate.

WHEREFORE, Petitioners pray for the following relief:

a. That the Commission accept this Petition to Intervene and make Petitioners intervenors and parties of record;

b. That the Commission allow Petitioners to participate fully in this proceeding and take such positions as they deem advisable; and

c. That the Commission grant such other and further relief as is just and proper.

Respectfully submitted,

ADAMS AND REESE, LLP

BY: _____

John J. Pringle, Jr.
1501 Main Street, 5th Floor
Columbia, SC 29201
Telephone: (803) 254-4190
Facsimile: (803) 799-8479
jack.pringle@arlaw.com

Attorneys for Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc. and Bloody Point Property Owner's Association

July 23, 2015
Columbia, South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA

Docket No. 2014-346-WS

Application of Daufuskie Island Utility Company, Inc. For Approval of an Adjustment for Water and Sewer Rates, Terms and Conditions	))))	**PETITION TO INTERVENE**

Beach Field Properties, LLC ("Beach Field") respectfully submits the within Petition to Intervene in the above-referenced docket. In support of its Petition, Beach Field would respectfully show unto this honorable Commission:

1. Beach Field is a limited liability company that owns property in the area served by Daufuskie Island Utility Company, Inc. ("DIUC").

2. Beach Field seeks to intervene in this proceeding with full rights to participate as a party of record in so far as its interests might appear.

3. DIUC has filed an application for approval of an adjustment in rates and charges for water and sewer service.

4. To the extent any such rates are properly assessed to the Beach Field property or any portion thereof, Beach Field has a direct and substantial interest in the amount of those rates and the manner in which they may be applied, and therefore will be directly affected by the outcome of this proceeding. While Beach Field has not fully developed a position regarding the Application at this time, Beach Field's position is that its participation in this proceeding is necessary to protect Beach Field's rights, and will aid the Commission in a full and fair consideration and resolution of the Application.

5. Correspondence and communications to Beach Field with respect to this proceeding should be directed to the undersigned counsel.

WHEREFORE, Beach Field Properties, LLC, respectfully requests that this honorable Commission permit its intervention in this proceeding as its interests might appear.

Respectfully submitted,

By: Margaret M. Fox

M. John Bowen, Jr.
Margaret M. Fox
McNair Law Firm, P.A.
Post Office Box 11390
Columbia, South Carolina 29211
Telephone: (803) 799-9800
Facsimile: (803) 753-3219
Email: jbowen@mcnair.net;
pfox@mcnair.net

ATTORNEYS FOR BEACH FIELD PROPERTIES, LLC

Columbia, South Carolina

July 27, 2015

STATE OF)
SOUTH CAROLINA) AFFIDAVIT
COUNTY OF BEAUFORT)

Personally appeared before me a Notary Public, in and for State and County, aforesaid, Sara Johnson Borton who being duly sworn according to law, deposes and says that she is the Publisher and President of *The Island Packet and The Beaufort Gazette*, **Daufuskie Island Utility Company -NOFH (II)** was published in the issue(s) of The Island Packet/The Beaufort Gazette on **June 28th, 2015.**

Sara Johnson Borton,
Publisher and President
The Island Packet/The Beaufort Gazette

Subscribed and sworn to before
me this 29th day of July, 2015

Notary Public for South Carolina
My Commission Expires 11/27/2022

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PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

CLERK'S OFFICE

NOTICE OF FILING AND HEARING AND PREFILE TESTIMONY DEADLINES (Revised)

DOCKET NO. 2014-346-WS

Application of Daufuskie Island Utility Company, Inc. for Approval of an Adjustment for Water and Sewer Rates, Terms and Conditions

Daufuskie Island Utility Company, Inc. (Daufuskie or the Company) filed an Application for Approval of an Adjustment in Rates and Charges for Water and Sewer Services with the Public Service Commission of South Carolina (the Commission). The Application was filed in accordance with S.C. Code Ann §§58 5 210 et seq and 10 S. C. Code Ann. Regs 103-512 4, 103-712 4, and 103-823.

As justification for the Company's request to adjust its rates, Daufuskie states that the current rates do not enable the Company to cover its cost of providing service and earn a fair return on its investment, and the Company has not applied for rate relief since 2012 and has not established unified rates under its current consolidated status Daufuskie states that the proposed rates in its Application are essential for the Company to continue to provide its customers with adequate water and wastewater service. Further, the proposed rates would establish uniform rates for all of the Company's customers, including Haig Point and Melrose service area customers.

The complete rate schedule and the current rates of Haig Point Utility Company, Inc. and Melrose Utility Company are included in the Company's Application, and the Application can be viewed on the Commission's website at www.psc.sc.gov

THE PROPOSED NEW RATES AND CHARGES ARE SET FORTH BELOW:

RESIDENTIAL RATES

WATER		Proposed Rates
Tapping Fees & ¾" Meter Box		$500 00
Base Quarterly Charge		$149.30
Consumption Charge (per 1,000 Gallons)	0 to 22,500 Gallons per Quarter	$4 41
	Over 22, 500 Gallons	$4 41

SEWER		Proposed Rates
Tapping Fees & Service Lateral		$500.00
Base Quarterly Charge		$218.18
Volumetric Charge (per 1,000 Gallons)	0 to 22,500 Gallons per Quarter	$2.38
	Over 22,500 Gallons	$2.38

IRRIGATION		Proposed Rates
Tapping Fees & ¾" Meter Box		$500.00
Consumption Charge (per 1,000 Gallons)	0 to 18,000 Gallons per Quarter	$4.85
	18,001 to 60,000 Gallons	$5 73
	Over 60,000 Gallons	$6.61

COMMERCIAL RATES

WATER		Proposed Rates
Tapping Fees per Hotel or Inn Room		$250 00
Tapping Fees up to 1-1/2" Meter		$500.00
Tapping Fees 2" or 3" Meter		$1,500.00
Tapping Fees for 6" Meter		$3,500 00
Note: Larger Meters on a Case by Case Basis		
Base Quarterly Charge		$209.01
Consumption Charge (per 1,000 Gallons)	0 to 22,500 Gallons per Quarter	$4.41
	Over 22,500 Gallons	$4.41

SEWER		Proposed Rates
Tapping Fees per Hotel or Inn Room		$250.00
Tapping Fees 4" – 8" Sewer Pipe		$500.00
Base Quarterly Charge		$305.45
Volumetric Charge (per 1,000 Gallons)	0 to 22,500 Gallons per Quarter	$2.38
	Over 22,500 Gallons	$2.38

IRRIGATION		Proposed Rates
Tapping Fees & ¾" Meter Box		$500.00
Consumption Charge (per 1,000 Gallons)	0 to 18,000 Gallons per Quarter	$4.85
	18,001 to 60,000 Gallons	$5.73
	Over 60,000 Gallons	$6.61

AVAILABILITY RATES	Proposed Rates
• Water Quarterly Charge	$107.49
• Sewer Quarterly Charge	$140.73

A copy of the company's complete application, as well as the proposed rates, charges and tariffs can be found on the Commission's website at www.psc.sc gov under Docket No. 2014-346 WS. Additionally, a copy of the application is available from the office of G. Trenholm Walker, Esquire, Pratt-Thomas Walker, 16 Charlotte Street, Charleston, South Carolina 29403.

PLEASE TAKE NOTICE that a hearing, pursuant to 10 S C. Code Ann. Regs. 103-817 and S. C. Code Ann. §58-5-240, on the above matter has been scheduled to begin on **Wednesday, October 28, 2015, at 10:30 a.m.,** before the Commission in the Commission's Hearing Room at 101 Executive Center Drive, Saluda Building, Columbia, South Carolina 29210 for the purpose of receiving testimony and evidence from all interested parties. The hearing may continue through October 29, 2015, if necessary

Any person who wishes to participate in this matter as a party of record should file a Petition to Intervene in accordance with the Commission's Rules of Practice and Procedure on or before **July 20, 2015.** For the receipt of future Commission correspondence, please include an email address in the Petition to Intervene. ***Please refer to Docket No. 2014-346-WS and mail a copy to all other parties in this docket.*** Any person who wishes to testify and present evidence at the hearing should notify, in writing, the Commission, the Office of Regulatory Staff at 1401 Main Street, Suite 900, Columbia, South Carolina 29201; and the company at the above address, on or before July 20, 2015. ***Please refer to Docket No. 2014-346-WS.***

INSTRUCTIONS TO ALL PARTIES OF RECORD (Applicant, Petitioners, and Intervenors only):
All Parties of Record must prefile testimony with the Commission and with all Parties of Record. Prefiled Testimony Deadlines: Applicant's **Direct Testimony** Due. 9/1/2015, Other Parties of Record **Direct Testimony** Due: 9/15/2015; Applicant's **Rebuttal Testimony** Due: 9/22/2015, and Other Parties of Record **Surrebuttal Testimony** Due: 9/29/2015. All prefiled testimony deadlines are subject to the information as posted on www.psc.sc.gov under ***Docket No.***
2014-345-WS.

Any person who wishes to request that the Commission hold a public hearing in his or her county of residence in order to hear comments from the utility's customers, should notify, in writing, the Commission, the Office of Regulatory Staff at 1401 Main Street, Suite 900, Columbia, South Carolina 29201; and the company at the above address, on or before **August 3, 2015.** ***Please refer to Docket No. 2014-346-WS.***

For the most recent information regarding this docket, including changes in scheduled dates included in this Notice, please refer to www.psc.sc.gov and ***Docket No. 2014-346-WS.***

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Persons seeking information about the Commission's procedures should contact the Commission at (803) 896 5100 or visit its website at www.psc.sc.gov.

6/23/15

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO.: 2014-346 - WS

IN RE: Application of Daufuskie Island Utility Company, Inc. for Adjustment of Rates and Charges for Water and Sewer Services	))))	AFFIDAVIT OF MAILING

Personally appeared before me, John F Guastella, who after being duly sworn, deposes and states as follows: I am President of Guastella Associates, LLC ("Guastella"). Guastella is the manager of Daufuskie Island Utility Company, Inc. ("DIUC"). DIUC is the Applicant in the above-captioned Application proceeding. On behalf of DIUC, I caused to be mailed on June 29, 2015, by First-Class United States Mail to all affected customers of DIUC at the customer addresses maintained in DIUC's billing records, one copy of the Notice of Filing and Public Hearing in the above-captioned matter.

Further Affiant sayeth not.

John F. Guastella

7/29/15

Date

Palm Beach, FL

County and State

John F. Guastella did personally appear before me, was duly sworn under oath and under penalty of perjury, and did execute this Affidavit in my presence.

Notary Public State of Florida
Rafael Agosto
My Commission FF 174499
Expires 11/06/2018

SWORN before me this 29th day of July, 2015

Notary Public for the State of Florida

My Commission Expires: 11/6/18

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

CLERK'S OFFICE

NOTICE OF FILING AND HEARING AND PREFILE TESTIMONY DEADLINES (Revised)

DOCKET NO. 2014-346-WS

Application of Daufuskie Island Utility Company, Inc. for Approval of an Adjustment for Water and Sewer Rates, Terms and Conditions

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• Sewer Quarterly Charge	**$140.73**

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2014-346-WS

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Persons seeking information about the Commission's procedures should contact the Commission at (803) 896 5100 or visit its website at www.psc.sc.gov

6/23/15

ADAMS AND REESE LLP

Attorneys at Law
Alabama
Florida
Louisiana
Mississippi
South Carolina
Tennessee
Texas
Washington, DC

John J. Pringle, Jr.
Direct: 803.343.1270
E-Fax: 803.343.1238
jack.pringle@arlaw.com

October 27, 2015

FILED ELECTRONICALLY
The Honorable Jocelyn G. Boyd
Clerk
South Carolina Public Service Commission
Post Office Drawer 11649
Columbia, South Carolina 29211

RE: Application of Daufuskie Island Utility Company, Inc. for Approval of Water and Sewer Rates, Terms and Conditions
Docket No. 2014—346-WS

Dear Jocelyn:

Attached for filing please find the **Settlement Agreement** ("Settlement") by and among Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs") and the Office of Regulatory Staff of South Carolina ("ORS").

The POAs are aware of the Commission's Settlement Procedures, and understand that the Settlement is being filed on the day before the hearing in this Docket. However, this Settlement is the result of a great deal of communication and collaboration between the POAs and the ORS, and is being filed at the first possible opportunity following its negotiation and execution.

The revenue reflected in the Settlement reflects all of the adjustments made by the ORS, with the exception that the ORS amended its bad debt methodology to utilize the methodology proposed by Daufuskie Island Utility Company, Inc. (the "Company") in its Application. No other changes were made by ORS in reaching the Settlement.

If you have any questions, please do not hesitate to contact me.

Sincerely,

John J. Pringle, Jr.

cc: parties of record (via electronic mail service)

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2014-346-WS

OCTOBER 27, 2014

IN RE:

Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	)	**SETTLEMENT AGREEMENT**

This Settlement Agreement is made by and among Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs") and the Office of Regulatory Staff of South Carolina ("ORS"), (all hereinafter collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, on June 11, 2015, DIUC filed with the Public Service Commission of South Carolina ("Commission") an Application for Approval of an Adjustment in Rates and Charges for Water and Sewer Services ("Application");

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket;

WHEREAS, the other parties in this case, Daufuskie Island Utility Company, Incorporated ("DIUC" or "the Company") and Beach Field Properties, LLC ("Beach Field"), are not signatories to this Settlement Agreement;

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (the "Commission") pursuant to the procedure established in S.C.

Code Ann. § 58-5-240 (Supp. 2014) and 10 S.C. Code Ann. Regs. 103-503, 103-512.4.A, 103-703 and 103-712.4.A;

WHEREAS, as calculated by ORS, the Company provides water supply/distribution services to 680 active residential and commercial service units and wastewater collection/treatment services to 493 active residential and commercial service units, all of which is located on Daufuskie Island, in Beaufort County, South Carolina;

WHEREAS, ORS examined the books and records of the Company relative to the issues raised in the Application and conducted financial, business, and site inspections of DIUC; and

WHEREAS, the Parties have engaged in discussions to determine whether a settlement in this proceeding would be in their best interests and in the public interest;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order addressing the merits of this proceeding, will result in rates and charges for water and wastewater service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to earn a reasonable operating margin.

1. The Parties agree to stipulate into the record the pre-filed testimonies and exhibits of the following without objection or cross examination:

A. ORS

1. Douglas H. Carlisle (direct)
2. Ivana C. Gearheart (direct)
3. Willie J. Morgan (direct and surrebuttal)

B. HPCCA, MPOA, and BPPOA

1. Lynn M. Lanier (direct)
2. Charles Loy (direct and surrebuttal)

3. Paul Vogel (direct)

4. Tony Simonelli (direct)

5. Doug Egly (direct)

6. Harry Jue (direct)

2. By and between these Parties, the Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits and this Settlement Agreement unless the additional evidence is in support of the Settlement Agreement or to respond to Commission questions. The Parties agree that nothing herein will preclude each party from advancing its respective positions in the event that the Commission does not approve the Settlement Agreement.

3. The Parties stipulate and agree to the rate schedule attached hereto and incorporated herein by reference as Settlement Agreement Exhibit 1. Settlement Agreement Exhibit 2 shows the percentage increase for the rates.

4. The Parties agree that the rates in Settlement Agreement Exhibits 1 and 2 along with the adjustments and revenues in Settlement Agreement Exhibits 3, 4 and 5 are fair, just, and reasonable to customers of the Company's system while also providing the opportunity to earn a fair operating margin which produces additional revenues of $462,798. The Parties stipulate that the resultant operating margin is 16.18% with a return on equity of 9.28%.

5. The Parties agree to accept all adjustments and recommendations in ORS's testimony and exhibits, as modified by this Settlement Agreement and its Exhibits.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding.

7. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2014). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

> . . . 'public interest' means a balancing of the following:
> (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
> (2) economic development and job attraction and retention in South Carolina; and
> (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

8. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair in any way their arguments or positions they may choose to make in future Commission proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

9. This Settlement Agreement shall be interpreted according to South Carolina law.

10. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

11. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of this Settlement Agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

12. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing and binding the South Carolina Office of Regulatory Staff

Shannon B. Hudson

Shannon Bowyer Hudson, Esquire
Andrew M. Bateman, Esquire
South Carolina Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, South Carolina 29201
Tel.: (803) 737-0889
(803) 737-8440
Fax: (803) 737-0895
E-mail: abateman@regstaff.sc.gov
shudson@regstaff.sc.gov

Representing and binding the Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., and the Bloody Point Property Owner's Association:

John F. Beach, Esquire
John J. Pringle, Jr., Esquire
Lyndey Ritz Zwing, Esquire
Adams and Reese, LLP
1501 Main Street, 5th Floor
Post Office Box 2285 (29202)
Columbia, South Carolina 29201
Phone: (803) 343-1270
Fax: (803) 779-4749
Email: Jack.pringle@arlaw.com
john.beach@arlaw.com
Lyndey.zwing@arlaw.com

Daufuskie Island Utility Company, Inc.
Schedule of Current and Proposed Rates
Docket No. 2014-346-WS

		Haig Pt. Settlement Rates	Melrose Settlement Rates
I. Residential Rates			
A. Water:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Base Quarterly Charge		$80.81	$105.05
3) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$4.41	$4.41
	Over 22,500 gallons	$4.41	$4.41
B. Sewer:			
1) Tapping Fees & Service Lateral		$500.00	$500.00
2) Base Quarterly Charge		$143.65	$105.05
3) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.38	$2.38
	Over 22,500 gallons	$2.38	$2.38
C. Irrigation:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$4.85	$4.85
	18,001 to 60,000 gallons	$5.73	$5.73
	Over 60,000 gallons	$6.61	$6.61
II. Commercial Rates			
A. Water:			
1) Tapping Fees per Hotel or Inn Room		$250.00	$250.00
2) Tapping Fees up to 1-1/2" Meter		$500.00	$500.00
3) Tapping Fees 2" or 3" Meter		$1,500.00	$1,500.00
4) Tapping Fees for 6" Meter		$3,500.00	$3,500.00
Note: Larger meters on a case by case basis.			
5) Base Quarterly Charge		$113.17	$177.77
6) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$4.41	$4.41
	Over 22,500 gallons	$4.41	$4.41
B. Sewer:			
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2) Tapping Fees 4" - 8" Sewer Pipe		$500.00	$500.00
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	Over 60,000 gallons	$6.61	$6.61

III. Availability Rates (Quarterly)

A. Water	$40.40	$99.38
B. Sewer	$71.83	$110.72

III. Special Conditions

A. Tapping Fees:

Haig Point - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.* *This applies to lots purchased prior to date of this order, but not to lots sold after the date of this order. (See Commission Order No. 93-761 in Docket No. 87-333-WS)

Melrose - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.

B. Backflow Prevention: All irrigation systems and pipes running from potable water lines must have approved backflow prevention devices installed.

C. System Development Charge: Should new customers or their agent(s) petition to connect to the systems where there are no existing lines, pumps, hydrants, etc.; and should such petitions be approved, the following requirements shall apply:

1. New customers or their agent(s) shall be responsible for the cost of installation of the new water and sewer systems, including points of connection with existing systems and effluent return systems. The installation shall be according to the requirements and satisfaction to the utility company, and costs shall include observation, testing, and certification services provided by utility company.

2. New customers or their agent(s) who install their systems must pay an amount equal to their share of the net investment in the existing plant and system facilities. This payment, on a cost per gallon of design flow, will be made according to the System Buy -in Pricing Basis (AWWA Manual 26, First Edition), based on the following formula.

a. System Original Cost - Accumulated Depreciation = Net Cost

b. Net Cost - Outstanding Debt = Total Equity*

$$\text{c. Flow (Total design gallons per day)} = \frac{\text{Total Equity Investment}}{\text{System Water or Sewer}} = \$/\text{gallons}$$

*For these calculations, the utility company's annual report to the PSC for the preceding year shall be used. Extra strength wastewaters will be charged accordingly.

Calculated DIUC Test Year Revenue Overview

	Customer Type	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues[1]
WATER	Haig Point RESIDENTIAL WATER	3/4" Residential			1,061	$62.09	$65,877
		0 to 22,500 gallons	8,360,179	$2.76			$23,074
		Over 22,500 gallons	3,192,728	$2.76			$8,812
	Haig Point RESIDENTIAL & COMMERCIAL IRRIGATION				727		
		0 to 18,000 gallons	8,367,838	$2.76			$23,095
		18,001 to 60,000 gallons	9,829,270	$3.09			$30,372
		Over 60,000 gallons	10,049,342	$3.50			$35,173
	Melrose RESIDENTIAL WATER	3/4" Residential			452	$80.72	$36,485
		0 to 22,500 gallons	4,105,940	$0.00			$0
		Over 22,500 gallons	2,177,808	$2.44			$5,314
	Melrose RESIDENTIAL & COMMERCIAL IRRIGATION				100		
		0 to 18,000 gallons	1,368,330	$1.66			$2,271
		18,001 to 60,000 gallons	2,002,230	$1.66			$3,324
		Over 60,000 gallons	2,986,298	$1.66			$4,957
	Haig Point COMMERCIAL WATER	Commercial			106	$86.93	$9,215
		0 to 22,500 gallons	2,413,190	$2.76			$6,660
		Over 22,500 gallons	2,132,690	$2.76			$5,886
	Melrose COMMERCIAL WATER	Commercial			329	$136.60	$44,941
		0 to 22,500 gallons	1,752,659	$0.00			$0
		Over 22,500 gallons	2,544,703	$2.44			$6,209
		Water Service Total	***61,283,205***		***2,775***		***$311,665***
SEWER	Haig Point RESIDENTIAL SEWER	Residential			1,061	$110.38	$117,113
		0 to 22,500 gallons	8,360,179	$1.32			$11,035
		Over 22,500 gallons	3,192,728	$1.32			$4,214
	Melrose RESIDENTIAL SEWER	Residential			448	$80.72	$36,163
		0 to 22,500 gallons	3,926,008	$0.00			$0
		Over 22,500 gallons	2,296,390	$1.77			$4,065
	Haig Point COMMERCIAL SEWER	Commercial			102	$178.21	$18,177
		0 to 22,500 gallons	2,362,530	$1.32			$3,119
		Over 22,500 gallons	2,132,690	$1.32			$2,815
	Melrose COMMERCIAL SEWER	Commercial			329	$136.60	$44,941
		0 to 22,500 gallons	1,559,487	$0.00			$0
		Over 22,500 gallons	2,436,565	$1.77			$4,313
		Sewer Service Total	***26,266,577***		***1,940***		***$245,955***
	Total Residential Water and Sewer Service Revenue						$312,152
	Total Commercial Water and Sewer Service Revenue						$146,276
	Total Irrigation Service Revenue						$99,192
	Total Water and Sewer Service Revenues						**$557,620**
	Availability Billing - Haig Point (Water)				1,917	$31.04	$59,504
	Availability Billing - Melrose (Water)				1,617	$76.36	$123,474
	Availability Billing - Bloody Point (Water)				368	$76.36	$28,100
	Availability Billing - Haig Point (Sewer)				1,917	$55.19	$105,799
	Availability Billing - Melrose (Sewer)				1,617	$85.08	$137,574
	Availability Billing - Bloody Point (Sewer)				368	$85.08	$31,309
	Total Availability Billing						**$485,760**
	Misc. Other Revenue - Other Revenue						$11,000
	Misc. Other Revenue - Other Revenue (Return Check Fee)						$25
	Misc. Other Revenue - Late Fees (Metered Sales)						$6,058
	Misc. Other Revenue - Late Fees (Availability Charges)						$13,114
	Total Misc. Other Revenue						**$30,197**
	Total Operating Revenues						**$1,073,577**

[1] Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

Calculated DIUC Proposed Revenue Overview at 9.28%

	Customer Type	Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues at Proposed Rates[1]	Increase Amount	% Increase
WATER	Haig Point RESIDENTIAL WATER	3/4" Residential			1,061	$80.81	$85,739	$19,862	30.15%
		0 to 22,500 gallons	8,360,179	$4.41			$36,868	$13,794	59.78%
		Over 22,500 gallons	3,192,728	$4.41			$14,080	$5,268	59.78%
	Haig Point RESIDENTIAL & COMMERCIAL IRRIGATION				727		$0		
		0 to 18,000 gallons	8,367,838	$4.85			$40,584	$17,489	75.73%
		18,001 to 60,000 gallons	9,829,270	$5.73			$56,322	$25,950	85.44%
		Over 60,000 gallons	10,049,342	$6.61			$66,426	$31,253	88.86%
	Melrose RESIDENTIAL WATER	3/4" Residential			452	$105.05	$47,483	$10,998	30.14%
		0 to 22,500 gallons	4,105,940	$4.41			$18,107	$18,107	N/A
		Over 22,500 gallons	2,177,808	$4.41			$9,604	$4,290	80.73%
	Melrose RESIDENTIAL & COMMERCIAL IRRIGATION				100		$0		
		0 to 18,000 gallons	1,368,330	$4.85			$6,636	$4,365	192.21%
		18,001 to 60,000 gallons	2,002,230	$5.73			$11,473	$8,149	245.16%
		Over 60,000 gallons	2,986,298	$6.61			$19,739	$14,782	298.20%
	Haig Point COMMERCIAL WATER	Commercial			106	$113.17	$11,996	$2,781	30.18%
		0 to 22,500 gallons	2,413,190	$4.41			$10,642	$3,982	59.79%
		Over 22,500 gallons	2,132,690	$4.41			$9,405	$3,519	59.79%
	Melrose COMMERCIAL WATER	Commercial			329	$177.77	$58,486	$13,545	30.14%
		0 to 22,500 gallons	1,752,659	$4.41			$7,729	$7,729	N/A
		Over 22,500 gallons	2,544,703	$4.41			$11,222	$5,013	80.74%
		Water Service Total	***61,283,205***		***2,775***		**$522,541**	**$210,876**	**67.66%**
SEWER	Haig Point RESIDENTIAL SEWER	Residential			1,061	$143.65	$152,413	$35,300	30.14%
		0 to 22,500 gallons	8,360,179	$2.38			$19,897	$8,862	80.31%
		Over 22,500 gallons	3,192,728	$2.38			$7,599	$3,385	80.33%
	Melrose RESIDENTIAL SEWER	Residential			448	$105.05	$47,062	$10,899	30.14%
		0 to 22,500 gallons	3,926,008	$2.38			$9,344	$9,344	N/A
		Over 22,500 gallons	2,296,390	$2.38			$5,465	$1,400	34.44%
	Haig Point COMMERCIAL SEWER	Commercial			102	$231.93	$23,657	$5,480	30.15%
		0 to 22,500 gallons	2,362,530	$2.38			$5,623	$2,504	80.28%
		Over 22,500 gallons	2,132,690	$2.38			$5,076	$2,261	80.32%
	Melrose COMMERCIAL SEWER	Commercial			329	$177.77	$58,486	$13,545	30.14%
		0 to 22,500 gallons	1,559,487	$2.38			$3,712	$3,712	N/A
		Over 22,500 gallons	2,436,565	$2.38			$5,799	$1,486	34.45%
		Sewer Service Total	***26,266,577***		***1,940***		**$344,133**	**$98,178**	**39.92%**
	Total Residential Water and Sewer Service Revenue						$453,661	$141,509	45.33%
	Total Commercial Water and Sewer Service Revenue						$211,833	$65,557	44.82%
	Total Irrigation Service Revenue						$201,180	$101,988	102.82%
	Total Water and Sewer Service Revenues						**$866,674**	**$309,054**	**55.42%**
	Availability Billing - Haig Point (Water)				1,917	$40.40	$77,447	$17,943	30.15%
	Availability Billing - Melrose (Water)				1,617	$99.38	$160,697	$37,223	30.15%
	Availability Billing - Bloody Point (Water)				368	$99.38	$36,572	$8,472	30.15%
	Availability Billing - Haig Point (Sewer)				1,917	$71.83	$137,698	$31,899	30.15%
	Availability Billing - Melrose (Sewer)				1,617	$110.72	$179,034	$41,460	30.14%
	Availability Billing - Bloody Point (Sewer)				368	$110.72	$40,745	$9,436	30.14%
	Total Availability Billing				**7,804**		**$632,193**	**$146,433**	**30.15%**
	Misc. Other Revenue - Other Revenue						$11,000	$0	0.00%
	Misc. Other Revenue - Other Revenue (Return Check Fee)						$25	$0	0.00%
	Misc. Other Revenue - Late Fees (Metered Sales)						$9,416	$3,358	55.43%
	Misc. Other Revenue - Late Fees (Availability Charges)						$17,067	$3,953	30.14%
	Total Misc. Other Revenue						**$37,508**	**$7,311**	**24.21%**
	Total Operating Revenues						**$1,536,375**	**$462,798**	**43.11%**

[1] Deposits and Interest on Deposits are not included in any of the above computations. Consumption and Units reflected as reported during test year.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Combined Operations

Description	(1) Application Per Books $	(2) Accounting & Pro Forma Adjustments $		(3) After Accounting & Pro Forma Adjustments $	(4) Proposed Increase $		(5) After Proposed Increase $
OPERATING REVENUE							
Residential revenue	307,239	4,913	1a	312,152	141,509	18a	453,661
Commercial Revenue	151,056	(4,780)	1b	146,276	65,557	18b	211,833
Irrigation Revenue	98,309	883	1c	99,192	101,988	18c	201,180
Availability Billing	489,665	(3,905)	2	485,760	146,433	19	632,193
Misc. Other Revenue	30,193	4	3	30,197	7,311	20	37,508
TOTAL OPERATING REVENUE	1,076,462	(2,885)		1,073,577	462,798		1,536,375
OPERATION AND MAINTENANCE EXPENSES							
Operation and Maintenance Expenses	848,818	(122,422)	4	726,396	6,194	21	732,590
TOTAL OPERATION AND MAINTENANCE EXPENSES	848,818	(122,422)		726,396	6,194		732,590
Depreciation and Amortization Expense	73,072	(2,002)	5	71,070	0		71,070
Amortization of Rate Case Expenses	92,420	(42,308)	6	50,112	0		50,112
Taxes Other than Income Tax Expense	23,440	139,849	7	163,289	3,964	22	167,253
Income Tax Expense	0	0	8	0	147,179	23	147,179
TOTAL OPERATING EXPENSES	1,037,750	(26,883)		1,010,867	157,337		1,168,204
NET OPERATING INCOME	38,712	23,998		62,710	305,461		368,171
Add: Customer Growth	0	286	9	286	939	24	1,225
NET INCOME (LOSS) FOR RETURN	38,712	24,284		62,996	306,400		369,396
ORIGINAL COST RATE BASE:							
Gross Plant in Service	7,964,379	(1,624,696)	10	6,339,683	0		6,339,683
Accumulated Depreciation	(790,024)	(141,198)	11	(931,222)	0		(931,222)
Construction Work In Progress (CWIP)	254,853	(254,853)	12	0	0		0
Contributions in Aid of Construction	(660,295)	0	13	(660,295)	0		(660,295)
Accumulated Amortization of CIAC	69,269	213	14	69,482	0		69,482
Net Plant	6,838,182	(2,020,534)		4,817,648	0		4,817,648
Working Capital	75,842	69,437	15	145,279	0		145,279
Unamortized Balances	0	0	16	0	0		0
TOTAL RATE BASE	6,914,024	(1,951,097)		4,962,927	0		4,962,927
RETURN ON RATE BASE	0.56%			1.27%			7.44%
OPERATING MARGIN	-12.90%			-5.38%			16.18%
INTEREST EXPENSE	177,526	(56,759)	17	120,767	0		120,767

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Water Operations

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments		(3) After Accounting & Pro Forma Adjustments	(4) Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
OPERATING REVENUE							
Water Residential	139,071	491	1a	139,562	72,319	18a	211,881
Water Commercial	72,479	432	1b	72,911	36,569	18b	109,480
Water Irrigation	98,309	883	1c	99,192	101,988	18c	201,180
Availability Billing	213,004	(1,926)	2	211,078	63,638	19	274,716
Misc. Other Revenue	20,444	(715)	3	19,729	4,389	20	24,118
TOTAL OPERATING REVENUE	543,307	(835)		542,472	278,903		821,375
WATER OPERATION AND MAINTENANCE EXPENSES							
Operation and Maintenance Expense	469,605	(68,723)	4	400,882	3,733	21	404,615
TOTAL OPERATING AND MAINTENANCE EXPENSES	469,605	(68,723)		400,882	3,733		404,615
Depreciation and Amortization Expense	36,921	(6,383)	5	30,538	0		30,538
Amortization of Rate Case Expenses	46,210	(21,154)	6	25,056	0		25,056
Taxes Other than Income Tax Expense	11,748	69,946	7	81,694	2,389	22	84,083
Income Tax Expense	0	0	8	0	87,417	23	87,417
TOTAL OPERATING EXPENSES	564,484	(26,314)		538,170	93,539		631,709
NET OPERATING INCOME	(21,177)	25,479		4,302	185,364		189,666
Add: Customer Growth	0	0	9	0	351	24	351
NET INCOME (LOSS) FOR RETURN	(21,177)	25,479		4,302	185,715		190,017
ORIGINAL COST RATE BASE:							
Gross Plant in Service	3,899,032	(1,353,024)	10	2,546,008	0		2,546,008
Accumulated Depreciation	(382,950)	(80,727)	11	(463,677)	0		(463,677)
Construction Work In Progress (CWIP)	29,511	(29,511)	12	0	0		0
Contributions in Aid of Construction	(458,500)	0	13	(458,500)	0		(458,500)
Accumulated Amortization of CIAC	51,580	39	14	51,619	0		51,619
Net Plant	3,138,673	(1,463,223)		1,675,450	0		1,675,450
Working Capital	0	80,176	15	80,176	0		80,176
Unamortized Balances	0	0	16	0	0		0
TOTAL RATE BASE	3,138,673	(1,383,047)		1,755,626	0		1,755,626
RETURN ON RATE BASE	-0.67%			0.25%			10.82%
OPERATING MARGIN	-20.24%			-7.08%			17.93%
INTEREST EXPENSE	88,763	(46,042)	17	42,721	0		42,721

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Sewer Operations

Description	(1) Application Per Books	(2) Accounting & Pro Forma Adjustments		(3) After Accounting & Pro Forma Adjustments	(4) Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
OPERATING REVENUE							
Sewer Residential	168,168	4,422	1a	172,590	69,190	18a	241,780
Sewer Commercial	78,577	(5,212)	1b	73,365	28,988	18b	102,353
Sewer Irrigation	0	0	1c	0	0	18c	0
Availability Billing	276,661	(1,979)	2	274,682	82,795	19	357,477
Misc. Other Revenue	9,749	719	3	10,468	2,922	20	13,390
TOTAL OPERATING REVENUE	533,155	(2,050)		531,105	183,895		715,000
SEWER OPERATION AND MAINTENANCE EXPENSES							
Operation and Maintenance Expense	379,213	(53,699)	4	325,514	2,461	21	327,975
TOTAL OPERATING AND MAINTENANCE EXPENSES	379,213	(53,699)		325,514	2,461		327,975
Depreciation and Amortization Expense	36,151	4,381	5	40,532	0		40,532
Amortization of Rate Case Expenses	46,210	(21,154)	6	25,056	0		25,056
Taxes Other than Income Tax Expense	11,692	69,903	7	81,595	1,575	22	83,170
Income Tax Expense	0	0	8	0	59,762	23	59,762
TOTAL OPERATING EXPENSES	473,266	(569)		472,697	63,798		536,495
NET OPERATING INCOME	59,889	(1,481)		58,408	120,097		178,505
Add: Customer Growth	0	286	9	286	588	24	874
NET INCOME (LOSS) FOR RETURN	59,889	(1,195)		58,694	120,685		179,379
ORIGINAL COST RATE BASE:							
Gross Plant in Service	4,065,347	(271,672)	10	3,793,675	0		3,793,675
Accumulated Depreciation	(407,074)	(60,471)	11	(467,545)	0		(467,545)
Construction Work In Progress (CWIP)	225,342	(225,342)	12	0	0		0
Contributions in Aid of Construction	(201,795)	0	13	(201,795)	0		(201,795)
Accumulated Amortization of CIAC	17,689	174	14	17,863	0		17,863
Net Plant	3,699,509	(557,311)		3,142,198	0		3,142,198
Working Capital	75,842	(10,739)	15	65,103	0		65,103
Unamortized Balances	0	0	16	0	0		0
TOTAL RATE BASE	3,775,351	(568,050)		3,207,301	0		3,207,301
RETURN ON RATE BASE	1.59%			1.83%			5.59%
OPERATING MARGIN	-5.42%			-3.64%			14.17%
INTEREST EXPENSE	88,763	(10,717)	17	78,046	0		78,046

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS

RE:	)	
	)	
Application of Daufuskie Island Utility Company, Inc. for Approval for Water and Sewer Rates, Terms and Conditions	)	**CERTIFICATE OF SERVICE**
	)	

This is to certify that I have caused to be served this day the **Settlement Agreement** via electronic mail service as follows:

G. Trenholm Walker, Esquire
gtw@p-tw.com

Thomas P. Gressette, Esquire
tpg@p-tw.com

Nancy Jane Dennis
njd@p-tw.com

John Bowen
jbowen@mcnair.net
Peg Fox
pfox@mcnair.net

Andrew Bateman
abateman@regstaff.sc.gov
Shannon Hudson
shudson@regstaff.sc.gov

s/John J. Pringle, Jr.
John J. Pringle, Jr.

October 27, 2015
Columbia, South Carolina

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2014-346-WS – ORDER NO. 2015-__

DECEMBER __, 2015

IN RE:	Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	**JOINT PROPOSED ORDER APPROVING SETTLEMENT AGREEMENT AND RULING ON APPLICATION FOR ADJUSTMENTS IN RATES**

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IT IS THEREFORE ORDERED THAT: 28

I. INTRODUCTION

This matter is before the Public Service Commission of South Carolina (the "Commission") on the Application ("Application") of Daufuskie Island Utility Company, Incorporated ("DIUC" or "the Company") filed on June 9, 2015, seeking approval of a new schedule of rates and charges for water and sewer service that DIUC provides to its customers within its authorized service area in South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A.

In the Application, DIUC requested to increase revenues for combined operations by $1,182,301, consisting of a water revenue increase of $590,454 and a sewer revenue increase of $591,847. The revenue increase utilizes a return on equity ("ROE") of 10.5% based on the rate of return on rate base methodology and a 2014 historical test year. Tariff changes to bring the rates between the Haig Point and Melrose communities to uniformity were also requested.

DIUC's last rate case before this Commission was in Docket No. 2011-229-WS. In that case, Commission Order No. 2012-515 approved a Settlement Agreement entered into by the Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs"); and DIUC that was not objected to by the South Carolina Office of Regulatory Staff ("ORS"); whereby DIUC received a revenue increase of $291,485 based on a $5,000,000 rate base; an operating margin of 16.64%; and an ROE of 8.81%. DIUC also agreed not to seek another rate adjustment prior to July 1, 2014.

DIUC's South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class B water and wastewater utility according to water and sewer revenues reported on its application for the test year ending

December 31, 2014. The Commission approved service area for DIUC is on Daufuskie Island located in Beaufort County, South Carolina.

The Commission's Docketing Department instructed DIUC to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by DIUC's Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. The Commission also instructed DIUC to notify each affected customer by mailing or, where the customer had previously agreed to electronic notice, by e-mailing each customer a copy of the Notice of Filing. DIUC filed Affidavits of Publication and Mailing demonstrating that the Notice of Filing had been duly published and provided to all customers.

Petitions to Intervene were filed on behalf of the POAs on July 23, 2015 and Beach Field Properties, LLC ("Beach Field") on July 27, 2015.

Subsequent to their intervention, the POAs requested the Commission to schedule a public night hearing at a convenient time and location for customers of DIUC to present their comments regarding the service and rates of DIUC. In response, the Commission held a public night hearing pursuant to Order No. 2015-586. Under this Order, a public hearing was set and noticed by the Commission, and the Company provided an affidavit certifying that it had provided notice of the date, time and location of the local public hearing via publication in the Beaufort Gazette and The Island Packet. On September 15, 2015, the Commission held a night hearing beginning at 6:00 pm at the Haig Point Club Clubhouse, 130 Clubhouse Lane, Daufuskie

Island, South Carolina.[1]

On October 28, 2015 the Commission, with Chairman Nikiya "Nikki" Hall presiding, heard the matter of DIUC's Application beginning at 10:30 am at the Commission Hearing Room located at 101 Executive Center Drive in Columbia, South Carolina.

DIUC was represented by G. Trenholm Walker, Esquire and Thomas P. Gressette, Jr., Esquire. The POAs were represented by John J. Pringle, Jr., Esquire, John F. Beach, Esquire and Lyndey Ritz Zwing, Esquire. Beach Field was represented by M. John Bowen, Jr., Esquire and Margaret M. Fox, Esquire. ORS was represented by Shannon Bowyer Hudson, Esquire and Andrew M. Bateman, Esquire.

At the hearing on October 28, a Settlement Agreement[2] between the POAs and ORS was entered into the record after an objection to it by DIUC was overruled. The Settlement Agreement is attached to this Order as Order Attachment 1. DIUC, the POAs and ORS presented testimony and exhibits after one public witness, Mr. Reid Delaney,[3] testified. Mr. Delaney testified that he owns property on which assets are located and utilized by DIUC for its regulated water and sewer business.

DIUC presented the testimony of: John F. Guastella[4] (direct and rebuttal testimony), President of Guastella Associates, LLC ("GA"), a utility management, valuation and rate consulting firm headquartered in Boston, Massachusetts; Gary C. White (direct), Vice President and Director of Accounting at GA; Eric Johanson (direct), DIUC Chief Operator; and the

[1] Hearing Exhibit 1 consists of the night hearing sign-in sheets and Hearing Exhibit 2 consists of comments filed by public witness Andy Mason.
[2] The Settlement Agreement containing five exhibits was entered into the record as Hearing Exhibit 3.
[3] Hearing Exhibit 4 is a survey provided by Mr. Delaney.
[4] Hearing Exhibit 7 consists of Guastella Direct Exhibits A and B. Hearing Exhibit 8 consists of Guastella Rebuttal Exhibits 1 through 5. Hearing Exhibit 9 is the GA Management Agreement. Hearing Exhibit 10 consists of the ORS and POAs responses to DIUC's discovery requests.

Honorable Maria Walls[5] (rebuttal), Beaufort County Treasurer. Mr. Guastella and Mr. White testified as a panel about the management and finances of DIUC. Mr. Johanson's testimony addressed the operations of DIUC. Mr. Johanson was excused from the hearing without appearing before the Commission after his testimony was accepted into the record without objection from the other parties. Ms. Walls provided testimony on property taxes.

The POAs presented two panels of witnesses. The first panel consisted of Paul Vogel[6] (direct), Haig Point Club and Community Association resident; Doug Egly[7] (direct), Chief Operating Officer of the Haig Point Association; and Tony Simonelli (direct), real estate broker on Daufuskie Island. The second panel consisted of Lynn M. Lanier[8] (direct) and Charles Loy[9] (direct and surrebuttal), Principals of GDS Associates, Inc., a utility consulting and engineering firm with its principal offices in Marietta, Georgia; and Harry Jue[10] (direct), water and sewer consultant with Hussey Gay Bell Engineering. POA witnesses Vogel, Egly, and Simonelli presented testimony illustrating the points of view of their respective organizations, and each providing various facts and opinions opposing DIUC's request. POA witness Loy provided expert testimony regarding accounting and rate base issues. POA witness Lanier provided expert testimony on the overall Application and incorporated Mr. Loy's recommended adjustments. Beach Field did not pre-file or present testimony or cross examine any witness at the Commission hearing.

ORS presented the testimony of Douglas H. Carlisle[11] (direct), ORS Economist; Ivana C.

[5] Hearing Exhibit 5 consists of Walls Rebuttal Exhibit A.
[6] Hearing Exhibit 11 is Vogel Exhibit 1.
[7] Hearing Exhibit 12 is Egly Exhibit 1.
[8] Hearing Exhibit 14 consists of Lanier Exhibits 1 through 5. Exhibit 3 was revised at the hearing.
[9] Hearing Exhibit 15 is Loy Surrebuttal Exhibit 1. Hearing Exhibit 16 is Loy Direct Appendix A.
[10] Hearing Exhibit 13 is Jue Exhibit 1.
[11] Hearing Exhibit 17 is Carlisle Direct Exhibits 1 through 10.

Gearheart[12] (direct), ORS Audit Manager; and Willie J. Morgan[13] (direct and surrebuttal), ORS Deputy Director for the Water and Wastewater Department. Dr. Carlisle's testimony included an analysis and recommendation for an ROE. Ms. Gearheart's direct testimony described ORS's examinations of the application and DIUC's books and records as well as the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Morgan's direct testimony focused on DIUC's compliance with Commission rules and regulations, ORS's business audit of DIUC's water and wastewater systems, test-year and proposed revenue, and performance bond requirements.

II. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

Standards and Required Findings

DIUC's Application was filed pursuant to S.C. Code Ann. Sections 58-5-210 and 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A. In considering the Application, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. Thus, the Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of DIUC to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for DIUC based on the record and any increase must be just and reasonable and free of undue discrimination. DIUC has also asked this Commission to establish revenues based on an authorized ROE which is established to allow DIUC the opportunity to earn a fair return.

[12] Hearing Exhibit 18 is Gearheart Direct Exhibits 1 through 8.
[13] Hearing Exhibit 19 is Morgan Direct Exhibits 1 through 8. Hearing Exhibit 20 is Morgan Surrebuttal Exhibits 1 and 2.

After discussion of the positions of the parties, the Commission reaches the legal and factual conclusions below based on its review of the facts and evidence of record.

The evidence supporting the Company's business and legal status is contained in the Application filed by DIUC, testimony, and in prior Commission Orders in the docket files of the Commission, of which the Commission takes judicial notice. This finding of fact is informational, procedural and jurisdictional in nature, and the matters which it involves are not contested by any party.

Test Year

With respect to the test year, DIUC utilized a historic test year – the twelve months ending December 31, 2014 with adjustments for 2015 expectations. ORS used the 2014 historical test year for two reasons: 1) because it was chosen by DIUC and 2) the underlying transactions in the 2014 books could be tested to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Consistent with past practice and in accordance with generally accepted regulatory principles and prior Commission orders, ORS adjusted, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base. The POAs also utilized a 2014 historic test year with adjustments.

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's operating margin or, in this case, a return on rate base, and, consequently, the validity of the utility's requested rate increase. In order to determine what a utility's expense and revenues are for purposes of determining the reasonableness of a rate, one must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996).

While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data. *See Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); *see also, Parker V. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984), *citing City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 P.A. Super. 341, 144 A.2d 648 (1958); *Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E.2d 278 (1978). Based on the information available to the Commission and that all parties agreed to a 2014 test year, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 2014 is appropriate for the purposes of this rate request.

Rate of Return on Rate Base

DIUC requested that its rates be determined in accordance with the rate of return on rate base methodology. The determination of rate of return on rate base requires three components: 1) capital structure; 2) cost of debt; and 3) cost of equity (or return on equity). However, by statutory requirement, the Commission must specify an allowable operating margin in all water and wastewater orders. Although the Commission must specify an operating margin in its order, this does not mean that the operating margin methodology must be used in determining a fair rate of return. *Heater of Seabrook* at p. 64 and 830. Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation." *Id.* No party

contested the use of the rate of return on rate base methodology and given DIUC's large rate base, the Commission finds the rate of return on rate base methodology appropriate in this case.

Capital Structure and Cost of Debt

With respect to the capital structure, DIUC recommended a pro forma capital structure of 41.2% debt and 58.8% equity. ORS witness Dr. Carlisle testified there are two concerns with the method DIUC used to calculate its capital structure: 1) DIUC included pro-forma long-term debt in its long-term debt calculation; and 2) DIUC proposed an inflated equity amount. (Carlisle Direct R. p. 472). Dr. Carlisle noted that both result in an increase in the ROE. (Id.) The pro forma debt is based on the cost of debt DIUC expects, and as Dr. Carlisle noted, the outcome of DIUC's negotiations with banks or lenders is unknown at this time; therefore, DIUC's pro forma debt should not be included. (Carlisle Direct R. p. 473). The POAs also agreed that debt should not include future amounts. (Lanier Direct, R. p. 436, ll. 8-14). Dr. Carlisle further testified that DIUC's capital structure is weighted more heavily with equity, which is more expensive than debt. (Id.) In contrast to a projected or pro forma capital structure, ORS recommended a hypothetical capital structure of 46% long-term debt and 54% equity calculated by averaging the known capital structure used by water companies in the United States with publicly traded stock. (Id.) The POAs produced an adjusted capital structure of 57.55% debt and 42.45% equity (Hearing Exhibit 14, Amended Lanier Exhibit 3), based on a downward adjusted rate base, which is discussed later in this Order.

As to the specific cost of debt rate, DIUC recommended 6.20%. The POAs testified that 6.20% is relatively high in the current interest rate environment, but is probably a reasonable rate given DIUC's precarious financial state. To calculate the 6.20% debt rate, DIUC included anticipated legal and GA fees in the financing fees. In support of the debt amount, Mr. Guastella

testified the debt he used is based on his knowledge of prior financing costs applied to the costs expected to be incurred for future refinancing. As a percentage of the total debt, the anticipated fees are 13.56% per ORS's calculations. ORS did not incorporate the additional fees into the debt rate because the fees are a large percentage of the total debt and did not originate from a lending institution. ORS recommended that the actual debt rate being paid by DIUC to the current lending institution, 5.29%, be used.

Upon consideration of evidence, the Commission adopts the capital structure, 46% long-term debt and 54% equity, and debt rate, 5.29%, recommended by ORS since they are based on known data instead of expected events. The Commission declines to use the POAs capital structure because it is based on a downward adjusted rate base (discussed in the Rate Base section below) that this Commission declines to use.

Cost of Equity/Return on Equity

DIUC witness Guastella testified that the requested 10.5% ROE is based on his experience and judgment. The POAs witness Lanier testified, "This is the same rate the Company requested in its 2012 rate case[14], which was a specified rate, rather than a rate developed through justification of the ROE required to meet its needs for profit margin and to attract the needed debt capital." (Lanier Direct, R. p. 437, ll. 1-4). In contrast to DIUC, ORS's Dr. Carlisle recommended an ROE of 9.31% based on a range of 8.91% to 9.71% using results from the Discounted Cash Flow model ("DCF"), Capital Asset Pricing Method ("CAPM") and the Comparable Earnings Model ("CEM"). (Carlisle Direct R. pp. 471 and 474). Dr. Carlisle testified the DCF and CAPM are known and generally accepted methods for determining a recommended ROE. (Id.) The POAs testified that the DCF is the prevailing method used for

[14] The merits hearing for DIUC's last rate case in Docket No. 2011-229-WS was held in 2012.

determining appropriate ROEs. The POAs also testified that while the DCF and CAPM are recognized as methods for calculating ROEs, the DCF and CAPM provide challenges since there are not many publicly traded companies similar to DIUC. For his analyses, Dr. Carlisle examined data on companies with publicly traded stock of which more data is available, because DIUC requested rates based on rate of return. (Carlisle Direct R. p. 475). Companies with publicly traded stock yield more data than what is available for privately held companies. (Id.) Specifically, Dr. Carlisle testified that he used publicly traded companies classified as "water utilities" by Value Line or *Yahoo! Finance* for his DCF and CAPM since they are in the same line of business as DIUC and share similar risks. (Id.) For his CEM analysis, Dr. Carlisle used companies with comparable betas to those of the companies used in his DCF and CAPM group. (Id.)

DIUC did not provide analyses similar to those used by Dr. Carlisle; however, Schedule A-3 of DIUC's application shows the following references to ROE:

Connecticut DPUC Formula:

Average Large Company	9.69%
Small Company Adder	0.50%
Performance Adder	0.50%
	10.69%

Florida PSC Leverage Graph Formula:

5.6% + (2.279 / Equity Ratio)		= ROE
Range	100%	= 7.88%
	40%	= 11.30%
Equity Ratio	58.8%	= 9.47%

There is no discussion of these components in Schedule A-3 or testimony, with the exception of Mr. Guastella's rebuttal testimony containing the following single sentence, "Under the Connecticut Public Utilities Regulatory Authority formula for return on equity for small companies, the rate of return on equity for DIUC is 10.69%." ORS provided no testimony on

either the Connecticut or Florida ROE formulas. The POAs could find no other reference to the Connecticut formula and challenged DIUC's portrayal of the Florida formula. Witness Lanier for the POAs testified, "[S]imply including a formula on a schedule and a calculated number is not sufficient rationale to support a ROE, particularly of 10.5%, when the company is requesting a revenue increase of over 100% in order to achieve such return." (Lanier Direct, R. p. 439, ll. 7-9). The POAs acknowledged Dr. Carlisle as a source to support an appropriate ROE, and the POAs pre-filed direct testimony recommended an ROE in the range of 8.5% to 9.0% in consideration of a lower rate base and based on various examples of DIUC's "irresponsibility in its operations since the rate increase authorized in 2012 and in the use of debt funds, in view of the critical need for cash." (Lanier Direct, p. 441, ll. 2-3).

In summary, DIUC requested an ROE of 10.5%; ORS recommended an ROE of 9.31% based on a range of 8.91% to 9.71%; and the POAs recommended an ROE in the range of 8.5% to 9.0%.

Upon consideration of the various witnesses, the Commission adopts the range set forth in evidence as produced by ORS. ORS used the well-known and commonly-accepted DCF method, CAPM, and CEM for developing its range of 8.91% to 9.71%. Those methods, as applied by ORS, are grounded in sound analysis. While the POAs also used the well-known analyses, this Commission declines the range proposed by the POAs. The Commission finds DIUC's ROE recommendation lacking in support and analysis.

Rate Base

The rate base proposed by DIUC for combined operations was $7,085,475.[15] In support

[15] See Application Schedule A-4; however the December 31, 2014 rate base total from Application Schedules W-B and S-B totals $6,914,024.

of its rate base, DIUC included several plant assets, particularly a 125,000 gallon elevated water storage tank, well and facilities (the "facilities") which are located on real property not owned by DIUC. Specifically, the facilities are located on real property (the "Site") that, as described below, was sold at a delinquent tax sale. DIUC does not dispute that it is not the owner of the Site.[16] However, DIUC offered testimony and evidence that it owns these facilities, namely that 1) the tax sale did not include the storage tank, well and facilities, only the Site; 2) DIUC pays property taxes to Beaufort County for the facilities; 3) DIUC has the right to operate those facilities on any parcel of land in the Haig Point development[17]; and 4) these facilities are "used and useful" in providing water service. (Guastella Direct, R. p. 195, Walls Rebuttal, R. pp. 82-83). DIUC offered the testimony of the Beaufort County Treasurer who stated the Company is paying a utility tax on water system infrastructure. (Walls Rebuttal R. p. 83).

Both ORS and the POAs excluded the facilities from rate base. ORS testified that DIUC did not provide enough information for ORS to determine whether or not DIUC is the owner of those facilities. (R. p. 502 and Morgan Surrebuttal R. p. 517). ORS excluded the facilities from rate base in Docket No. 2011-229-WS. (Morgan Surrebuttal R. p. 516 and Gearheart Direct R. p. 496). In support of its position that DIUC had not supplied sufficient information to demonstrate ownership of the facilities, ORS entered into evidence a December 2011 Beaufort County government Tax Deed ("Tax Deed") conveying the Site in a delinquent tax sale. (Hearing Exhibit 19 – Exhibit WJM-7). The delinquent tax sale occurred as a result of DIUC's failure to pay taxes. The Tax Deed describes the property sold as the "Elevated Tank Site" and further

[16] A 10,000 gallon ground level storage tank is located on another piece of property and excluded from rate base by ORS for lack of proof of ownership. (Morgan Direct R. p. 511 and Hearing Exhibit 19 - Exhibit WJM-8).
[17] With respect to DIUC's access to the facilities on land it does not own, DIUC testified it has a perpetual easement to the facilities, however, no evidence was produced of a perpetual easement or any easement recorded after the sale of the property. (R. p. 156 and Hearing Exhibit 8).

states the "Elevated Tank Site's" "premises" and "appurtenances" are granted to Mamdouh Sabry Abdelrahman ("Mr. Sabry"). Mr. Sabry, the grantee, is not associated with DIUC. (R. p. 156).

With respect to the overall rate base, the POAs recommended that DIUC's rate base as proposed $7,085,475 be reduced by $3,745,530 as a result of 1) increased accumulated depreciation, 2) contributions in aid of construction ("CIAC") and 3) CIAC amortization. (Loy Direct, Table 1, R.p. 371). Witness Mr. Loy for the POAs testified that Generally Accepted Accounting Principles ("GAAP") and appropriate regulatory accounting required that accumulated depreciation be calculated on a straight-line basis from the "in service" date through the end of the test year. (Loy Direct, R. p. 371). In addition, Mr. Loy testified that an adjustment increasing accumulated depreciation "reflects the proper age and condition of the utility property," (Loy Direct, R. p. 371). POAs witness Mr. Jue echoed Mr. Loy's conclusion, opining that the DIUC system "would be expected to reflect accumulated depreciation of approximately 30%." (Jue Direct, R. p. 362). Mr. Loy also testified that certain DIUC plant purchased from Haig Point Utility Company ("HPUC") should be classified as CIAC rather than invested plant. According to Mr. Loy, International Paper (the original owner of HPUC) and later Haig Point, Inc. ("HPI") treated the utility plant in HPUC as inventory, expensed those costs, and donated those assets to HPUC. (Loy Direct, R. p. 380). As support for this conclusion, Mr. Loy testified that HPUC Water Annual Reports for the years 2000-2003 showed no plant balances at all. (Loy Direct, R. p. 381). The failure to classify plant as CIAC requires adjustments to both to net plant and CIAC amortization. Mr. Loy also testified that the appropriate characterization of DIUC plant as CIAC would greatly reduce the DIUC property tax

burden, both for back taxes (a reduction of $402,108 for tax years 2011-2013) and in the test year (a reduction of $115,995 for tax year 2014). (Loy Direct, R. p. 396).

In sum, the POAs recommended adjustments, largely to net utility plant, accumulated depreciation, contributions in aid of construction, and accumulated amortization to CIAC that would reduce the rate base for combined operations to $3,276,311.

By contrast, ORS used the carryforward rate base from the last rate case in Docket No. 2011-229-WS, $4,615,755, and made adjustments through December 31, 2014[18]. (R. p. 524.) Using DIUC's utilization factor method with ORS's adjustments, ORS recommended that $1,932,858 be deducted from the Company's December 31, 2014 Application rate base. Of the amount deducted, $1,624,696 is gross plant in service representing non-allowable plant, adjustments from the previous case not carried forward by DIUC in this Application, and retirements. (Gearheart Direct R. p. 496.) ORS Audit Exhibit ICG-5 (Hearing Exhibit 18) shows the specific items composing the $1,624,696. ORS also deducted $141,198 from accumulated depreciation and $254,853 from Construction Work in Progress ("CWIP"). Accumulated amortization of CIAC added $213 to the above gross plant in service, accumulated depreciation, and CWIP adjustments to arrive at a total net plant deduction of $2,020,534. When $87,676 in working capital was added, the total rate base reduction became $1,932,858. (R. ORS Audit Exhibit ICG-1, Hearing Exhibit 18). After deducting the rate base adjustment from the Application Schedule W-B and S-B December 31, 2014 rate base of $6,914,024, ORS's recommended rate base for combined operations was $4,981,166. In summary, DIUC's recommended rate base was $7,085,475, the POAs' was $3,276,311, and ORS's was $4,981,166.

[18] For the carryforward amount, ORS used the rate base it calculated in the prior rate case instead of using the settlement agreement rate base in Docket No. 2011-229-WS.

After reviewing the evidence presented by DIUC, ORS, and the POAs, the Commission accepts the rate base determination methodology and adjustments proposed by ORS. The ORS methodology is logical in its steps and sets forth sound methods for determining a proper rate base on which a return may be granted.

The Facilities

DIUC bears the burden of demonstrating the reasonableness of the plant values included in its proposed rate base, particularly when, as here, ORS and the POAs have challenged some of those values. *Utility Services of South Carolina, Inc. v. SCORS*, 392 S.C. 96, 109, 708 S.E.2d 755 (2011). The Commission agrees that DIUC has not met its burden in demonstrating the reasonableness of the plant values associated with the facilities. DIUC is permitted to earn a return only on that plant it owns. 10 S.C. Code Ann. Regs. 103-716.16 defines "plant" as "[a]ll facilities *owned* by the utility for the collection, production, purification, storage, transmission, metering, and distribution of potable water." (Emphasis added). It is undisputed that DIUC does not own the Site, the real property upon which the elevated storage tank is located.

With respect to the facilities, although it is uncontested those assets are used and useful for DIUC, DIUC has not demonstrated that it "owns" these facilities for purposes of including their values in rate base. First, the late-filed Exhibit 6, a Letter from Gary N. James, Assessor for Beaufort County, states that in 2009 the Beaufort County Assessor's Office showed the property "as having a water tank/tower." Second, the Tax Deed states the "appurtenances to the" "Elevated Tank Site" were conveyed to Mr. Sabry. While "appurtenances" is not defined in the Tax Deed, the Black's Law Dictionary (9th ed.) definition of the term "appurtenance"- "[s]omething that belongs or is attached to something else"-- suggests that the facilities were "appurtenances."

Similarly, the evidence in the record is conflicting regarding what property was transferred by the Tax Deed. DIUC witness Walls testified in her pre-filed testimony that the Tax Deed did not include any DIUC utility property, and further that Mr. Sabry is not taxed for the facilities. (R. p. 83). However, on cross examination by ORS, Ms. Walls stated she could not answer the question of whether the elevated storage tank is an "appurtenance" that would have been conveyed in the grant to Mr. Sabry. Further, Hearing Exhibit 19 (Exhibit WJM-7), a printout from the Beaufort County website and describing the Elevated Tank Site, shows that Beaufort County is taxing Mr. Sabry, not DIUC, for at least one building on the property (described as a "UTLSHED").

With respect to the question of whether DIUC pays property taxes to Beaufort County based upon the value of the facilities, the record is also unclear. ORS witness Morgan testified that based on conversations with the SC Department of Revenue ("DOR"), Beaufort County and DIUC, ORS understands that DOR utilizes the utility plant-in-service values DIUC lists on Schedule 201 (Utility Plant-in-Service) of the Water Annual Report to value the amount of property subject to tax by Beaufort County. DIUC submitted Revised Water Annual Reports to ORS and the Commission for years 2012 and 2013. (Hearing Exhibit 20). In the Revised Water Annual Reports filed by DIUC, DIUC made adjustments on Schedule 201, adjusting the value of the utility plant-in-service by ($1,110,715) for 2012 and ($893,781) for 2013. ORS testified these amounts appear to correspond to the plant asset value of $863,379 removed by ORS for the elevated storage tank in Docket No. 2011-229-WS.

ORS witness Morgan testified that it was his understanding that DIUC specifically filed Revised Water Annual Reports for 2012 and 2013 to reflect the rate base allowed in Docket No. 2011-229-WS which would likely result in a reduction of the property valuation computed by

DOR for DIUC. Mr. Morgan stated it also appears that the Water Annual Report filed by DIUC for 2014 includes similar adjusted plant-in-service values. ORS's position is that DIUC should not be allowed to earn a return on the elevated storage tank for ratemaking purposes while at the same time having taken action that could reduce property taxes by revising annual reports to deduct a value corresponding to the elevated storage tank value.

The Commission agrees with ORS that DIUC's adjustments reducing plant-in-service values for property tax purposes, as well as the uncertainty regarding what DIUC owns as a result of the delinquent tax sale, support removing the value of the facilities from DIUC's rate base. DIUC's actions in removing plant for reporting purposes and thereby removing the corresponding tax obligations associated therewith, are inconsistent with the proposition that DIUC owns those assets for ratemaking purposes. While DIUC may not have adjusted its utility plant-in-service by the exact value of the elevated storage tank, in at least two tax years DIUC has reduced its total utility plant-in-service by a value very similar to (and actually exceeding) that of the elevated storage tank. In other words, and contrary to its testimony, DIUC does not pay taxes on all of its utility plant-in-service that it claims to be part of its rate base in this Docket. The Commission concludes that removal of the facilities from rate base is therefore appropriate in these circumstances.

The POAs arguments are compelling. However, given the number of rate cases that have occurred since International Paper owned the utility, the Commission declines to adopt a different rate base than the one carried forward from the last rate case by ORS. However, the Commission's conclusions regarding DIUC's rate base do not preclude the POAs or the ORS from taking a different position in future proceedings.

Property Taxes

Since the last DIUC rate case in 2011, all parties agree that DIUC has had property tax issues. DIUC did not pay 2009 and 2010 property taxes when due. As discussed above, DIUC lost property in a delinquent tax sale as a result. DIUC testified that Beaufort County mailed the tax bills to the wrong address. In addition, the Company's 2012, 2013, and 2014 Beaufort County property taxes were significantly higher than what they had been in years prior. At issue among the parties is how much property taxes should be paid by the ratepayers.

After learning about the delinquent taxes, DIUC and the Beaufort County Treasurer entered into a settlement agreement that was entered into evidence. The settlement agreement allowed DIUC to pay Beaufort County monthly payments of $5,487.95 to cover property taxes totaling $526,843.39 for 2012, 2013, 2014, and 2015. The Beaufort County Treasurer testified that the monthly payment was derived by amortizing the $526,843.39 over eight years. Originally the amount was $651,267.27, but the settlement agreement was amended to the reduced amount of $526,843.39 after the SC Department of Revenue ("DOR") submitted lower asset values to Beaufort County.

With respect to its property tax request in this case, DIUC requested additional annual property tax expense of $65,856 for the 2012, 2013, 2014 and 2015 taxes and $ 188,093 for the annual amount of taxes going forward. DIUC's property tax expense request totaled $258,158 ($4,209 per books plus $65,856 plus $188,093). The POAs recommended that DIUC's tax expense be based on the POAs' downward-adjusted rate base. ORS testified that DIUC's current books reflected approximately $4,000 annually for property taxes and, with the ORS adjustments, DIUC would have $171,492 annually to cover property taxes. Specifically, ORS recommended that DIUC receive $30,612 annually for the 2012 and 2013 taxes totaling

$244,899 amortized over 8 years and $140,880 for the 2014 or test year taxes. ORS based its 2012 and 2013 adjustment amount and amortization period on DIUC's settlement with Beaufort County. The 2014 adjustment was based on the actual tax bills/assessment. ORS witness Gearheart testified that ORS allowed amounts for the 2012 and 2013 taxes, because DIUC did not have an opportunity to request a rate increase to cover the taxes after agreeing to a moratorium through July 1, 2014 in the settlement in Docket No. 2011-229-WS. ORS declined to allow property taxes for 2015 since ORS utilizes a historical test year.

Based on the evidence in the record and adopting the property tax analysis in the section entitled "The Facilities" above, the Commission adopts the property tax amounts as computed by ORS as they are based on known and measurable amounts. The Commission acknowledges that the 2015 property taxes appear to be set pursuant to the settlement agreement; however, we do not believe the 2015 amounts should be covered by ratepayers. The 2015 tax bill is not due until 2016 and this Commission notes the Beaufort County settlement agreement has already been amended once. We decline the POAs property tax recommendation since the POAs based their recommendation on a lower rate base amount we do not adopt.

Management Fees, Rate Case Expenses, and Other Expenses

DIUC has a contract with GA for management services which was entered into evidence. (Hearing Exhibit 9.) In it and confirmed through cross examination by the POAs and ORS, DIUC acknowledged that it agrees to pay GA a management fee of $13,596.85 a month with an annual 3.5% increase; a finance fee of 2% of the principal amount of any loan or GA's actual total hourly rates for handling the loan, whichever is greater; a capital fee of 10% for the first $50,000 of construction and 8% for construction costs over $50,000; an incentive fee of 20% of

the total net utility operating income; an incentive fee if DIUC is sold; rate case expenses; travel expenses; and expenses related to regulatory investigations and proceedings.

In its Application, DIUC requested that ratepayers cover $171,364 for management services paid to GA. Per ORS, DIUC also included an incentive fee in its test year management fees. (Gearheart Direct R. p. 493). POA witness Lanier testified that the Commission should not allow DIUC to use its higher expenses related to GA to justify the need for a rate increase. ORS recommended that GA's management fees be limited to the previously Commission-approved amount of $132,211 a year. ORS testified that it found no apparent increases in the management services provided by GA and did not find the requested increase justified.

DIUC requested $191,200 for current and unamortized rate case expenses to be recovered over 4 years. DIUC also testified that it would update its rate case expenses at the hearing to show the additional expenses incurred since the Application. ORS proposed that rate case expenses total $97,500 and be amortized over five years. The $97,500 consists of capped current rate case expenses in the amount of $75,000 for GA's preparation of the Application, developing rate models, calculating test year data, filing other rate case documents and legal expenses. ORS recommended $75,000 as a reasonable amount for rate case expenses in the last rate case. The remaining $22,500 is unamortized rate case expenses from the previous rate case.

ORS excluded from operating and maintenance expenses the incentive fee[19] included in the test year and $25,439[20] representing GA's management fee, legal expenses related to the property tax appeal and tax sale of the water tower, and other expenses not allowable for rate making purposes. DIUC witness Guastella disputed all exclusions noting "[GA's] efforts reflect an unequivocal commitment to provide adequate service to the customers, some of which were

[19] *See* ORS Adjustment 4(m).
[20] *See* ORS Adjustment 4(g).

achieved because of GA's rate setting expertise that is not typical of other managers." "Having consulted for some 600 developer-related water and sewer utilities, I am not aware of any that had managers with the regulatory, utility accounting, valuation, or rate setting experience that GA applied in meeting the challenges of managing DIUC." DIUC witness Guastella also testified, contrary to ORS's testimony, that the existing and proposed rates do not include any allowance for GA's incentive fee.

Upon review of the evidence, the Commission adopts ORS's adjustments for management fees, rate case expenses, and non-allowable expenses. We agree that GA provides services to the ratepayers, but disagree that the services are at a level that warrant the amount set forth in the management services contract. We think it is appropriate for DIUC stockholders to have responsibility for the difference. While customer service complaints are few in number, this Commission did hear testimony at the night hearing and the merits hearing that GA was an absentee management company and had very little presence on the island. It is undisputed that DIUC did not pay property taxes under GA's tenure (resulting in the tax sale described above), that required regulatory reports and fees have been filed and paid late (R. p. 244), and that the South Carolina Department of Health and Environmental Control ("DHEC") issued a notice of violations against DIUC (Vogel Direct, R. p. 319, ll. 14-16). We conclude the ORS-recommended amount for management expenses strikes a reasonable balance. The Commission agrees with ORS's judgment that $75,000 in rate case expenses is a reasonable amount to pass to ratepayers for this rate case. We also agree that the amortization period and the inclusion of unamortized rate case expenses from the last rate case are reasonable. The reasons set forth for excluding the non-allowable expenses is based on sound rate-making principals and those costs should not be passed to ratepayers.

Bad Debt Expense

In its Application, DIUC proposed bad debt expense associated with its proposed *pro forma* revenues to equal $16,090. Initially, ORS provided testimony proposing to adjust that expense upward to $108,349. (Gearheart Direct, R. p. 498). In the Settlement Agreement between the ORS and the POAs, and consistent with DIUC's request in its Application, ORS revised its adjustment to bad debt expense to utilize the methodology proposed by DIUC in its Application. (R. pp. 502-503). The bad debt expense is included in operation and maintenance expenses reflected in Settlement Exhibit ICG-3. The Commission accepts the bad debt expense methodology proposed by DIUC and adopted by ORS and the POAs in their settlement. We conclude this bad debt expense methodology is just and reasonable, particularly because it encourages DIUC to collect those debts it is owed.

Other Adjustments

The remaining ORS adjustments are accepted by this Commission without discussion. They either were not disputed by the parties or were caused by carrying out the effects of the adjustments adopted above.

Performance Bond

DIUC is currently providing the maximum amount required for its performance bond in the amount of $350,000 for water and $350,000 for sewer operations. Using the criteria set forth in 10 S.C. Code Ann. Regs. 103-512.3.1 and 103-712.3.1, ORS recommended that DIUC be required to continue the current performance bond amounts. DIUC and the POAs did not challenge the performance bond amounts. Accordingly and pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, the Commission requires that DIUC

maintain its performance bond in the amount of $350,000 for water and $350,000 for sewer operations.

Settlement Agreement

On October 27, 2015, the POAs and ORS filed with the Commission a Settlement Agreement whereby the POAs and ORS agreed to recommend to the Commission a revenue increase of $462,798 for DIUC's combined water and sewer operations. The Settlement Agreement includes five exhibits based on the settlement revenue with the first exhibit setting forth a proposed rate structure, the second exhibit showing the percentage increase for the proposed rates and the third, fourth, and fifth exhibits showing the operating experience, rate base and rates of return. The Settlement Agreement is attached to this Order as Order Attachment 1. The revenue was determined by accepting all of ORS recommended adjustments, with the exception that ORS agreed to recalculate its recommended bad debt expense to adopt the calculation utilized by DIUC in its Application. No other changes were made by ORS to its adjustments. The Settlement Agreement states the $462,798 revenue increase produces an ROE of 9.28% and an operating margin of 16.18% for the combined operations.

The Settlement Agreement's proposed revenue increase, $462,798, is 39.1% of the Company's requested revenue. Notably, the direct testimonies of Lanier and Loy for the POAs produced a revenue increase of $429,442 or 39.9% based on their adjustments and recommendations. The Settlement Agreement closely mirrors the results produced and recommended by the adjustments of both the POAs and ORS.

At the outset of the hearing and after counsel for the POAs introduced the Settlement Agreement into the record, DIUC objected to its inclusion stating that it would be improper for the Commission to consider or rule upon its terms without hearing all evidence. The objection

was duly noted and overruled as it is the Commission's practice to accept Settlement Agreements when presented, but continue to hear all evidence in the case prior to making a ruling on the merits of the case. The Commission continued to follow its practice in this case.

The Commission finds, based on the testimony of DIUC, the POAs and ORS, that an increase in rates is supported by the evidence presented. DIUC has not applied for a rate increase in several years as it was prevented from doing so pursuant to the settlement agreement approved in its last rate case in Docket No. 2011-229-WS. Expenses have increased during the last four years, and the Company is entitled to a fair and reasonable return to: 1) allow it to serve its customers at the same level and 2) place it in a more favorable position to borrow or acquire capital.

After reviewing the evidence in this case, we adopt and approve the Settlement Agreement and its exhibits. The Settlement Agreement includes all ORS adjustments with the exception of the bad debt expense. ORS testified that it recalculated its bad debt expense to reflect the calculation recommended by DIUC in its Application. The use of the Company's bad debt expense calculation causes a downward adjustment of working capital and therefore rate base. The rate base ORS recommended in its direct testimony changes from $4,981,166 to $4,962,927 in the Settlement Agreement. We find the use of the Company's recommended bad debt expense calculation non-objectionable and approve the resulting rate base and Settlement Agreement in its entirety. The Settlement Agreement revenue amount produces an operating margin of 16.18%. Further, the 9.28% ROE is within the ORS-recommended range adopted by this Commission of 8.91% to 9.71% and very close to the ORS-recommended ROE of 9.31%. The Settlement Agreement will permit the Company to cover operating costs and provide an opportunity to earn the approved rate of return on rate base. The resulting ROE allows DIUC the

opportunity to earn a fair return and we agree with ORS that the Settlement Agreement is in the public interest.

III. FINDINGS OF FACT

1. DIUC is a water and sewer utility providing water and sewer service in its assigned service area on Daufuskie Island, Beaufort County, South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Ann. §58-5-210, *et. seq.* DIUC's operations in South Carolina are subject to the jurisdiction of the Commission.

2. DIUC requested in its Application to increase revenues for combined operations by $1,182,301, consisting of a water revenue increase of $590,454, and a sewer revenue increase of $591,847, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a 2014 historical test year.

3. The appropriate test year period for this proceeding, selected by the Company, is January 1, 2014 through December 31, 2014.

4. The Commission will use the return on rate base methodology in determining and fixing just and reasonable rates.

5. The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or return on equity).

6. The Commission adopts and approves the Settlement Agreement and its exhibits (Order Attachment 1) in its entirety as it sets forth a fair return along with just and reasonable rates.

7. The approved Settlement Agreement utilizes a capital structure of 46% long-term debt and 54% equity; a cost of debt rate of 5.29%; and an ROE of 9.28%.

8. The Settlement Agreement ROE of 9.28% produces additional operating revenue of $462,798 consisting of a water revenues increase of $278,903 and a sewer revenue increase of $183,895.

9. The Settlement Agreement sets DIUC's rate base at $4,962,927.

10. The approved Settlement Agreement's revenues and expenses establish a fair and reasonable operating margin of 16.18%. S.C. Code Ann. § 58-5-240(H).

IV. CONCLUSIONS OF LAW

Based upon the Discussion, Findings of Fact as set forth herein, and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. DIUC is a public utility as defined in S.C. Code Ann. § 58-5-10(3) and as such is subject to the jurisdiction of this Commission.

2. The appropriate test year on which to set rates for DIUC is the twelve month period ending December 31, 2014.

3. Based on the information provided by the parties, the Commission concludes the appropriate rate setting methodology to use as a guide in determining the lawfulness of DIUC's proposed rates and for the fixing of just and reasonable rates is return on rate base.

4. In order for DIUC to have the opportunity to earn the 9.28% ROE, found fair and reasonable herein, DIUC must be allowed additional revenues of $462,798.

5. The rates as set forth in the attached Order Attachment No. 1 are approved for use by DIUC and are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of DIUC.

6. Pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, DIUC shall post a performance bond of $350,000 water and $350,000 for sewer operations.

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement including its attached Exhibits (Order Attachment 1) is approved, adopted, and accepted into the record, and is incorporated into and made part of this Order by reference. Further, we find the Settlement Agreement is in the public interest and constitutes a reasonable resolution of this proceeding.

2. The proposed rates, fees, and charges in Order Attachment 1 are both fair and reasonable and will allow DIUC to continue to provide its customers with adequate water and wastewater services. We further find that the additional terms and conditions set forth in the Settlement Agreement are reasonable and fair.

3. The Company is to provide thirty (30) days' advance notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. § 58-5-240.

4. A return on equity of 9.28% and operating margin of 16.18%, based on the new rates, fees, and charges, is approved for DIUC.

5. The Company shall continue to maintain current performance bonds in the amounts of $350,000 for water operations and $350,000 for wastewater operations pursuant to S.C. Code Ann. § 58-5-720.

6. The Company's books and records shall be maintained according to the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts. The Company is directed to make any necessary adjustments to its accounting system to conform to the NARUC Uniform System of Accounts.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Nikiya "Nikki" Hall, Chairman

ATTEST:

Swain E. Whitfield, Vice-Chairman

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS

IN RE:	)	PETITION FOR
Application of Daufuskie Island Utility Company, Inc.	)	RECONSIDERATION
For Approval of a New Schedule of Rates and	)	AND/OR
Charges for Water and Sewer Service	)	REHEARING

Summary

If forced to implement rates as established by the Commission's December 8, 2015, Order Approving Settlement Among Certain Parties and Ruling on Application for Adjustments in Rates ("Order"), DIUC will default on its obligations and its ability to provide service will be threatened. The Order's approved rates do not provide DIUC sufficient income to pay debt service (principal and interest) on the existing SunTrust Bank loans and to pay necessary operating expenses. The rates as approved will force DIUC into default.

The Commission's Order incorporates every adjustment, without exception, proposed by ORS, the largest being property taxes, management fees, rate case expenses, bad debts, and rate base. These adjustments are without factual foundation and ignore known and measurable expenses. As a result, the rate of return and operating margin stated in the Order are entirely illusory.

Pursuant to SC Code § 58-5-330 DIUC requests this Commission reconsider its December 8, 2015, Order and substitute DIUC's Proposed Order submitted November 15, 2015, to replace the Commission's Order in its entirety so as to prevent a host or problems, including DIUC's loan default.

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Default and Loan Compliance

At the hearing DIUC clearly explained the dire circumstances it will face if the Commission implemented ORS's adjustments and the proposed "Settlement Agreement" between ORS and the Intervenors. With respect to the proposed "Settlement Agreement,"[1] Mr. Guastella testified with specificity:

> [T]he proposed settlement between ORS and the property owners of $462,000 will give this utility no return on equity. None. And it will not give us enough money to pay our debt service on our existing loan. We will be in default because of all of these adjustments and failure to include what are real costs of providing service in terms of capital and our real cost of providing service in terms of operating the utility.

Transcript at 186. The Commission's Order does not demonstrate any consideration was afforded to this powerful warning.

DIUC's loan documents for the SunTrust Bank financing approved by this Commission in Docket No. 2012-397-WS, Order No. 2013-605, include covenants that put DIUC in default if it does not maintain a minimum debt service coverage and minimum EBITDA (i.e., Earnings Before Interest, Taxes, Depreciation, and Amortization) ratio. The lack of income allowed to DIUC by the recent Order will put DIUC in default on its $2,500,000 term loan and will preclude DIUC's ability to repay its $500,000 line of credit. It will also prevent DIUC from attracting additional capital for system improvements that are necessary to meet DHEC requirements.

Attached hereto is a schedule demonstrating the impact of the Commission's Order on DIUC's operations and how SunTrust will test DIUC's booked cost of operations. *See Impact of Commission's Order Accepting ORS/POA Settlement, Attachment A.* The Schedule reflects the

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[1] Since DIUC was not a party to the agreement between ORS and Intervenors, the agreement did not actually settle any matters before the Commission. In its proposed order DIUC set forth the several legal reasons why the Commission had no authority to entertain the agreement or to enter its "Approval" of the agreement. *See* DIUC Proposed Order at pp. 51-53.

$1,536,375 of combined water and sewer revenues allowed by the Order then subtracts the actual cost of operations DIUC will incur and book. The operating expenses of $1,355,363 listed in the Schedule are those reflected in DIUC's Proposed Order because SunTrust uses these actual costs and booked figures to perform its tests of Debt Service Coverage and the EBITDA ratio.

In other words, when SunTrust analyzes DIUC's books to determine if DIUC is in compliance with the terms of its loan, SunTrust will review the books DIUC presented to the Commission that reflect the Utility's actual expenses and bad debts. SunTrust does not consider reductions or analysis of adjustments; instead, SunTrust looks at cash flow to test DIUC's compliance with the terms of the SunTrust loan.

For example, DIUC's ongoing property taxes are used by SunTrust at the levels that must be accrued in order for DIUC to make its monthly and annual tax payments. However, the Order includes ORS's alternatively calculated property tax expense allowance which is considerably less than the actual known and measurable property taxes that DIUC will have to pay. In addition to covering its actual monthly installment payments under the property tax Settlement Agreement with Beaufort County, SunTrust requires DIUC properly accrue amounts sufficient to satisfy S.C. Department of Revenue assessments and Beaufort County property tax rates. These amounts are not allowed by the Order. Also, SunTrust considers DIUC's obligation to pay management fees according to the GA management contract without regard to the reduction in the Settlement Agreement. Those costs, then, are booked in accordance with the agreement. The amortization of rate case expenses will actually be about 5 times higher than the adjusted level by ORS. Finally, the bad debt expense used by SunTrust is the booked amount for 2014 and the latest 12 month period.

Applying these entries and the cash flow allowed by the Order results in the following calculation which will form the basis of SunTrust's decision as to whether DIUC is in compliance with its loans:

Revenues	$1,536,375
Operating Expenses	($1,355,363)
Net Operating Income	$ 181,012
Interest Due	($ 142,510)
Net Income	$ 38,501

After including depreciation of $93,089 and deducting debt service from Net Operating Income, **cash flow will be a negative $4,024**. This is a disastrous result.

Pursuant to the SunTrust loan, DIUC must maintain certain ratios of coverage for debt and EBITDA. *See* Schedule A. Collecting at the approved rates, there will be no money for equity return and DIUC will fail SunTrust's tests for debt service coverage and the EBITDA ratio. Accordingly, under the rates approved by the Order, DIUC will be in default on the SunTrust financing, DIUC will not be able to undertake a refinancing to pay off its $500,000 line of credit, and it will not be able to attract capital to make further capital improvements necessary to provide adequate service and comply with DHEC requirements. The SunTrust refinancing is essential to the survival of the Utility.

DIUC respectfully asks the Commission to reconsider its Order.

Adjustments for Reconsideration

The DIUC Proposed Order must be substituted in its entirety so as to prevent a host of problems, including DIUC's loan default. Alternatively, DIUC requests this Commission revise the Order to substitute the calculations and analysis from DIUC's Proposed Order regarding

property taxes, management fees, rate case expenses, bad debts, and rate base. These sections of the Proposed Order are highlighted in this Petition. Although this Petition does not address every point of the Commission's Order, DIUC reserves its original positions as set forth in filings, testimony, and Proposed Order submitted to the Commission on November 15, 2015.

Property Taxes

The Order adopts ORS's proposed reduction for the recovery of property taxes. So, instead of allowing DIUC to collect the $65,856 it is required to pay annually pursuant to the Amended Settlement Agreement between DIUC and Beaufort County for the 8 year payment plan, the Order allows DIUC to recover $30,612. Likewise reducing DIUC's income below the annual amount of $192,302 that must be collected by DIUC during 2016 in order to pay its 2016 property taxes, the Order only allows of payment of the 2014 annual taxes of $140,880 and no amount for the 2015 taxes due at the end of 2015. This annual shortfall for the known property tax obligations of DIUC of more than $80,000 is a huge deficit for a utility as small as DIUC.

The explanation provided in the Order for the Commission's acceptance of ORS's adjustments to property taxes is incomplete and it fails to address the actual amounts due, as set forth in the preceding paragraph. Additionally, it is inaccurate.

DIUC did not merely have "difficulties concerning property taxes," as stated in the Order. Instead, it was beyond DIUC's control that two governmental bodies failed to properly bill DIUC for property taxes: 1) Beaufort County sent tax bills and tax sale notices for the storage tank site to the wrong address, despite being informed of the correct address; 2) the County posted a notice of the tax sale at the wrong address; and 3) in the almost 30 years since 1985 when the water and sewer utilities on Daufuskie Island were created, the DOR never once

made a "Utility Tax" assessment until 2012, and then did so in arrears for three years all at once. Beaufort County then sent tax bills to DIUC for all three years -- 2010, 2011 and 2012.

DIUC successfully negotiated with Beaufort County to forgive the 2010 and 2011 Utility property taxes saving the rate payers over $230,000, which is not mentioned by in the Order (and perhaps should have also been addressed by the Commission in reviewing the services provided DIUC by its management team). DIUC also negotiated with Beaufort County to pay the 2012, 2013, 2014 and 2015 Utility Property taxes over 8 years, providing a present value savings of over $100,000 for the rate payers, not mentioned by ORS or in the Order. DIUC then negotiated with the S.C. Department of Revenue to reduce its assessment from the book value of all of DIUC's taxable assets to the rate base allowed by the Commission in the last rate case, another savings of over $124,000 for the rate payers. Although ORS seems to fault DIUC for this negotiation, it was perfectly appropriate and has no bearing on the current rate case. *See https://dor.sc.gov/tax/utilities* ("This property tax type is assessed based on fair market value, and the department may use any accepted or recognized valuation method which reflects the property's fair market value. This includes methods within the unit valuation concept.")

The Order states that "The 2015 tax bill is not due until 2016 and this Commission notes that the Company's Settlement Agreement with Beaufort County has already been amended once, and could be amended in the future." That statement is speculative, incorrect, and contradicted by the testimony in the record. Along with the Utility property taxes for 2012, 2013 and 2014, the 2015 Utility Tax is payable in accordance with the Settlement Agreement with Beaufort County, under which DIUC was required to begin the 8 year installment payments of the total taxes for 2012, 2013, 2014 and 2015, on July 1, 2015 -- not 2016 as reflected in the Order. In addition, the original Settlement Agreement between DIUC and Beaufort County was

amended in accordance with a specific provision that allowed for a reduction if DIUC successfully negotiated a retroactive reduction and obtained revised assessment values from the DOR. The amendment to the Settlement Agreement with Beaufort County was not a renegotiation or a second contract for further forgiveness by the County; the amendment simply recognized the correct amount of taxes as was promised by Beaufort County in the original agreement. A review of the agreements in evidence clearly reflects this fact.

There is no provision in the original or amended settlement agreement, or any testimony or evidence in the record that Beaufort County would ever agree to a further amendment. In fact, Beaufort County Treasurer Maria Walls testified there will not be any further agreement to reduce taxes:

> This is not a practice that we will continue. However, in the interest of getting the taxes paid, on behalf of Beaufort County government as well as the agencies we represent, we believed it was in the best interest of Beaufort County at that time to enter into an agreement with Daufuskie Island.

Transcript at 95. Ms. Walls further testified that:

> Beaufort County cannot offer DIUC an installment payment option for these upcoming taxes, I am concerned that if DIUC is not able to collect sufficient revenues in 2016 for the taxes due in January 2017 then DIUC will begin a cycle of incurring 15% penalty every year.

Transcript at 85.

Ms. Walls also specifically addressed questions from ORS Counsel at the hearing and explained that ORS Counsel was mistaken in asserting information on the Beaufort County website regarding payment plans would apply to DIUC's Utility Tax. Below is an exchange between Ms. Hudson and Ms. Walls; Ms. Hudson is asking the witness questions on cross examination.

Q. You have a really good website.

A. Thank you.

Q. One of the items on the website is the opportunity to apply to pay taxes in installments, and I think it's property taxes.

A Yes.

[...]

Q. I read that it applies to both commercial and residential property. Is that right?

A Yes, that's correct. However, it would not apply to Daufuskie Island Utility.

[. . .]

Q. I'm confused. You're saying that the utility – Daufuskie Island Utility – cannot apply to pay property taxes –

A. Correct.

Q. – in installments?

A. [continuing] the land that's owned by Daufuskie Island Utility, the valuation or taxes are included in what they are paying, ultimately. It's included in DOR's valuation. So they [DIUC] would not be eligible for the installment program, first, but even if they were, they would need to have paid in full the taxes that were due before applying.

Transcript at 97-99.

The Order's speculation and conjecture regarding a future negotiation or payment plan is not only an inappropriate and an impermissible basis for denying DIUC's requested relief, it is against the weight of the clear evidence before the Commission.

ORS also recommended and the Order "declined to allow property taxes for 2015 since ORS utilizes a historical test year." Order at 23. That is contrary to established law. Even when the Commission considers a utility's proposed rate increase based upon occurrences within a test year, the Commission may also consider adjustments for any known and measurable out of test

year changes in expenses, revenues, and investments, and the Commission will also consider adjustments for any unusual situations which occurred in the test year. *See Parker v. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984) (citing *City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 PA Super. 341, 144 A.2d 648 (1958); *Southern Bell v Public Service Commission*, 270 S.C. 590, 244 S.E.2d 278 (1978).

The Order further states that it rejects the Company's property tax request and calculation since it is based in part on the questionable ownership status of real property as noted above. That statement in the Order is also contradicted by the testimony of the witness who has the most knowledge on this matter, Maria Walls, Beaufort County Treasurer, who attested the deed did not convey the utility facilities on the lot. She testified as follows:

> Q. Did Beaufort County convey to Mr. Abdelrahman the elevated tank and other DIUC utility facilities located on the Elevated Tank Site?
>
> A. No. The Tax Deed did not include the elevated water tank, the well, the water pump, system pipes, or other DIUC property located on the Elevated Tank Site. All of those items remain part of the DIUC water system infrastructure.
>
> Q. Is Mr. Abdelrahman taxed for the elevated water tank, the well, the water pump, and system pipes located on the Elevated Tank Site?
>
> A. No.

Transcript at 82 – 83.[2]

Mr. Guastella's calculation of the annual Utility Property Taxes in the amount of $192,302 was made in accordance with the method of assessing utility property employed by

[2] The reference in the Beaufort County property record to a "UTILSHED" is not a reference to a utility facility that is used in the delivery of water to DIUC's customers. First, the record is a residential property record. Therefore, the term is used in that context to refer to a small shed where tools can be stored. Second, this "Residential Shed- Small Util" is the only item mentioned on the property record; there is no reference to the elevated storage tank or other utility facilities on the parcel.

DOR and the application of Beaufort County's tax rate. This calculation was not refuted. Guastella then included that amount in DIUC's proposed revenue requirement as a known and measurable charge. The Utility Property tax amount at the 2014 level proposed by ORS and accepted by the Commission does not reflect the known and measurable amount that DIUC will clearly have to pay under the new rates. In order to cover the 2016 Utility Property taxes, DIUC must collect sufficient revenue during 2016 under rates high enough to provide for payment of these taxes due in January 2017. Recognizing this fact, Maria Walls testified about her concerns:

> Q. Do you have any concerns about DIUC's ability to pay its upcoming taxes?
>
> A. Yes. In working with DIUC I have come to understand that DIUC's rates are set by the Public Service Commission. If the rates are not sufficient to allow DIUC to collect enough money prior to January 15th of a given year to pay the tax bill due on that date, then DIUC will not be able to pay its taxes. Of particular concern to me is the payment that will be due January 15, 2017, and whether DIUC will be allowed to charge rates sufficient to collect the funds necessary to make that payment in 2017.
>
> Q. What will happen if DIUC does not pay the taxes due on January 15, 2017?
>
> A. If DIUC misses a payment on January 15th of 2017 (or any subsequent year), a 3% penalty on the total taxes due would be assessed. If the taxes are not paid by February 1st, an additional 7% penalty is assessed. If the taxes are still not paid by March 15th an additional 5% penalty is assessed. So, in total DIUC would incur a 15% delinquency penalty by not paying the taxes on time. Since Beaufort County cannot offer DIUC an installment payment option for these upcoming taxes, I am concerned that if DIUC is not able to collect sufficient revenues in 2016 for the taxes due in January 2017 then DIUC will begin a cycle of incurring 15% penalty every year. Plus, if DIUC's taxes are not timely paid then DIUC will suffer the other ramifications of nonpayment of taxes.

Transcript at 84 - 85.

Accordingly, the Order's approved allowance of $30,612 is less than the actual annual payments ($65,856) that DIUC is making under the Amended Settlement Agreement with

Beaufort County; and the Order's approved annual level of $140,880 based on 2014 taxes is less than the $192,302 calculated according to the proper application of DOR and Beaufort County requirements.

There will be significant consequences of the Order's failure to allow rates sufficient to cover the utility's property taxes. In short, DIUC will be denied its actual cost of providing service. That denial of the ability to recover even its costs will result in penalties by Beaufort County that will ultimately add 15% annually to DIUC's ongoing utility property taxes and, as stated above, unpaid taxes will jeopardize DIUC's financing with SunTrust Bank in addition to risking tax liens. Not only does ignoring the reality of taxes risk the provision of service and punish DIUC and its owners, but the additional penalties and interest, which would be the result of this Order, will ultimately have to be borne by the rate payers.

Management Fees

When ruling, "the PSC must fully document its findings of fact and base its decision on reliable, probative, and substantial evidence on the whole record." *Porter v. S.C. PSC*, 333 S.C. 12, 21, 507 S.E.2d 328, 332 (1998). The adjustments adopted in the Order regarding management fees due Guastella Associates ("GA") under its management agreement are not based on a complete or accurate analysis of the record. The Order fails to address the issues of whether performance under GA's management agreement was beneficial to DIUC's customers and whether GA's fees were reasonable. As such, the Order fails to demonstrate a reliable, probative basis for accepting the adjustment proposed by ORS.

Instead of presenting support and analysis, the Order simply restates the ORS recommendation that GA's fees "be limited to the previously Commission-approved amount of $132,211 a year" and states that ORS "found no apparent increases in the management services

provided by GA and did not find the requested increase justified." ORS presented nothing else in its direct testimony or surrebuttal testimony with respect to GA's management fees. Those two statements in the record are ORS's entire analysis of GA's management fees and they are not even accurate.

First, the management fee of $132,211 was not a "Commission-approved" management fee in the previous case, as asserted by ORS. DIUC's last rate case, Docket No. 2011-229-WS, Order No. 2012-515, was settled by agreement of DIUC, ORS and the Intervenors (the same Intervenors in this case). Neither the settlement agreement nor the Commission's approval of it mentions the management fees or the amount of $132,211. Moreover, it is error for the Commission to rely on a previous order for its reasoning in the current case. As the Supreme Court has explained, figures from past test year are only probative, if at all, as a starting point for analysis by the Commission. The discussion below from the Court explains the rule.

> Utility argues, however, that the PSC used Utility's recent rate increase as part of its justification for denying the current rate application. To the extent the PSC did so, this was error. *Cf. Heater of Seabrook II*, 332 S.C. at 29, 503 S.E.2d at 743 (finding it was "inappropriate" for the PSC to rely in a 1997 order on its reasoning in a 1992 order granting an increase to the same company because "this order . . . was based on evidence, and a prior test year, completely different from [the utility's] financial condition at the time of the current application."). The PSC must not use the simple fact of a recent rate increase as a reason to deny a utility's rate application. ***An application for a rate increase must stand or fall on its own merits.*** A recent rate increase provides only a starting point for determining whether a utility's rate base or expenses have increased, such that additional revenues are required.

Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff, 392 S.C. 96, 115, 708 S.E.2d 755, 765 (2011) (Emphasis added).

In violation of this principle of law, ORS's conclusion that there were no increases in the management services provided by GA fails to provide any analysis of what services were provided at the time of the last rate case. There is no "starting point" from which the analysis

may proceed. Second, there was no proof that the services Guastella Associates provided were identical to those provided before the last rate case. Finally, Mr. Guastella provided proof of new projects and efforts in a report that described extensive services provided since the last rate case related to the repair, maintenance, and upgrade of the Utility, and its efforts to address new and unique issues that reduced capital costs and property taxes. *See* Transcript Exhibit 7, Report on Capital Improvements (prefiled as Exhibit to Guastella Direct Testimony).

After adopting ORS's erroneous and unsupported assumption that there was no increase in management services, the Order adds, "We agree that GA provides services to the ratepayers, but disagree that the services are at a level that warrant the amount set forth in the management services contract." There is no evidence to support this conclusion, even if this focus is solely on the amount due to GA for its services. To the contrary, Mr. Guastella presented rebuttal testimony and *Exhibit 8* demonstrating that on a comparable basis DIUC's cost of operations, including management fees, is less than four of eight municipal water and wastewater utilities in South Carolina, and far less than the average, even though DIUC's costs should be higher because it serves an island with no road access, has far fewer customers, and has to pay taxes that these municipal utilities escape. *See* Transcript Exhibit 8, Average Monthly Water and Sewer Costs - Based on Monthly Usage of 11,000 Gallons (prefiled as Guastella Rebuttal Exhibit 4). Regarding the reasonable fees related to the capital improvements. Mr. Guastella testified that the GA capital fee structure under the management agreement is about half of such typical charges. *See* Transcript at 251. This testimony was not challenged or in any way disputed by ORS or Intervenors. Any conclusion that the GA's management fees are at an excessive level is simply not supported by the record. The Order also fails to accurately evaluate any concerns with GA's management. Referring to Mr. Guastella's testimony, the Order also states that, "Further, he stated that the Company's books are in either Boston, Florida, or New York at various times." DIUC

obtained permission to keep its books and records out of state soon after its acquisition by CK Materials, and ORS has not expressed any problem, concern or difficulty examining DIUC's books and records, or obtaining responses to every request for information during the course of its investigation of this rate application. The implication that the location of DIUC's books is an indication of poor management is not supported by the record. If ORS and the Commission felt that the location of the books and records somehow diminished their accuracy or caused a decreased level of service, neither of which is true, then DIUC should have been so informed and it would have immediately made arrangements to correct any problems.

The Order also states that, "It is undisputed that DIUC did not pay property taxes under GA's tenure (resulting in the tax sale described above) ... ." The implication that GA's management is somehow responsible for the tax sale is not supported by any testimony or evidence in the record. On the contrary, the testimony and evidence demonstrates, without challenge or dispute, that Beaufort County sent the tax bill and notices of the tax sale in question to the wrong address, despite being notified by GA of the correct address at which to send tax bills, and that the required on-site notice of the tax sale was posted at the wrong property. *See* Late-Filed Exhibit 6 at Page 5 (Letter dated October 9, 2009 to Beaufort County Assessor informing County of new mailing address). The record clearly establishes that the tax sale was beyond the control of DIUC, and not an avoidable fault of GA's management.

Further, with respect to the Utility Tax, as distinguished from the real property taxes, it is undisputed that DOR never assessed DIUC's facilities until it did so in arrears in 2014. DOR failed to assess the Utility Tax; it was not GA who failed to pay them. When DOR and Beaufort County attempted to unfairly force DIUC to pay five years of utility taxes in arrears that were never billed to DIUC, DIUC diligently responded and successfully negotiated the forgiveness of two of the five years and obtained a favorable payment plan for the other three. The assault of

ORS and the Intervenors on GA's handling of tax matters is entirely unfounded. GA's handling, instead, demonstrates an astute response that reduced the tax liability and protected the rate payers. That is the opposite of what the Commission implies in going along with the groundless slight of ORS.

The record also established GA's high level of performance and includes DHEC's praise of GA's efforts in emails to Mr. Guastella, which state:

> On August 12, 2014, the Department met with Mr. Mike Guastella, representing Daufuskie Island Utility Company (DIUC), regarding conditions, alleged violations and inspection results at and for wastewater treatment facilities owned and operated by DIUC. In attendance, in addition to Mr. Guastella, were Ms. Penny Cornett of the DHEC Low Country (Beaufort) Office and me. If necessary, I can scan a copy of the Conference Register and send it to you.
>
> We would like to thank Guastella Associates for your attention, cooperation and assistance in addressing longstanding issues and violations at these facilities. The upgrades you have made, and continue to make, will serve both the utility and its customers well. We wish you success in your proposed rate increase, as that will assist the utility in remaining viable and effective in its mission to serve its customers and protect South Carolina's environment. We look forward to continuing to work with you.

See Transcript Exhibit 8, Email from H. Michael Longshore, MPH, Compliance and Enforcement Section, Water Pollution Control Division, Bureau of Water to John Guastella (prefiled as Guastella Rebuttal Exhibit 5).

Consideration of all of the above testimony and evidence of record is necessary to determine the reasonableness of DIUC's management expenses. The Commission should reconsider its decision as to allowable fees for GA's management of DIUC. Its decision to disallow a large portion of the contractual obligation of DIUC under the management agreement with GA is not supported by the preponderance of the evidence.

Rate Case Expenses

The Order also adopts the ORS allowance of only $75,000 for rate case expenses based

upon DIUC's last rate case. Similar to the management fee adjustment by ORS, it is error for the Commission to rely on a previous order for its reasoning in the current case. *See Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff,* 392 S.C. 96, 708 S.E.2d 755 (2011). Mr. Guastella also testified that in the last rate case the Company requested $181,200 but that DIUC's actual expense totaled $370,000; and in this case, the actual expenses are reported at $380,000, yet DIUC is only requesting the Commission allow $191,200. *See* Transcript at 181. DIUC's requested rate case expense of $191,200 is similar in amount with the rate case expenses that the Commission allowed in another 2012 contested rate decision. *See* Docket No. 2011-317-WS, Order No. 2012-98, approving rate case expenses of $190,905.

The Commission should reconsider the allowance of DIUC's requested rate case expenses, which are only about one-half of the expenses actually incurred. These expenses are unavoidable in order to seek adjudication of a rate application. The Commission's decision to disallow 75% or more of the actual rate case expenses incurred is not supported by the preponderance of the evidence.

Bad Debts

The Order accepts the ORS/Intervenors' "settlement agreement" recommendation that reverses the ORS original adjustment up to $108,349 of bad debts to allow only the $30,852[3] in DIUC's original Application. The original ORS level of $108,349 was one of twenty adjustments accepted by DIUC as reflected in Mr. Guastella's rebuttal testimony. *See* Transcript at 199. The ORS reversal was made public with the submission of the "settlement agreement" on October 27, 2015, the day before the evidentiary hearing. The Order's acceptance of the bad debt expense methodology adopted by ORS and the Intervenors in their "settlement agreement"

[3] The total of $16,090 stated in the Order is incorrect. DIUC's adjustment was $16,090 but the total *pro forma* amount was $30,852.

is contrary to the record, as testified by Mr. Guastella:

> Q. One of the adjustments proposed by ORS, and included within that list, I believe, is number 14. Is that bad debt?
>
> A. Yes.
>
> Q. Can you explain why the utility was willing to accept that adjustment?
>
> A Yes. Our bad-debt expense per books, which went to 2014, was over $100,000. When we prepared our filing, we took a conservative approach and allowed only $30-$40,000, I believe. When I saw ORS's testimony, they used a percentage applied to revenues, and they came up with $100,000, which was consistent with our 2014 level. I then looked at our latest 12 months of revenues, compared to a previous similar period of 12 months of revenue, and I found that our bad debts' expense were still up over the $100,000. So I accept their adjustments. It favors the company, but it's the reality of what we've been facing. Our bad debts were at a level of $100,000, before we filed the case and subsequent to filing the case, and ORS's adjustment was reasonable and I accepted it.

Transcript at 136 – 137.

No ORS witness provided any cost justification for the change in ORS's position as to the bad debt other than a capitulation to the request of the Intervenors. The two matters in the record as to the proper level of bad debts are ORS's original position of $108,349 and DIUC's testimony that the actual bad debts expenses for the test year and the most current 12 month period is over $100,000. The Commission should reconsider the bad debt allowance. The Commission's decision to disallow almost $100,000 of the actual bad debt expense suffered by DIUC is not supported by the preponderance of the evidence. There is no proof that $30,852 is realistic or anywhere close to the actual amount.

Rate Base -- Lack of Evidence

The Order accepts the ORS/Intervenors' "settlement agreement" recommendation that reduces utility plant in service by a total $1,624,696. The scant reasons for ORS's proposed adjustment are provided in Ms. Gearheart's testimony, which states the adjustment serves "to

reflect capital improvements, non-allowable plant, adjustments from the previous case not made by DIUC and retirements through July 31, 2015" and "undocumented expenses." Transcript at 496 and Hearing Exhibit 18 and Audit Exhibit ICG-4, Page 5, ORS Adj. 10, respectively. From the ORS testimony of Mr. Morgan, it is revealed that the elevated storage tank is part of the $1,624,696 adjustment to utility plant in service, but neither Mr. Morgan nor Ms. Gearheart provide the costs of the elevated storage tank or related facilities that are part of that total adjustment. Also, there is nothing in the record provided by ORS or the Intervenors to identify the specific plant items or their costs represented by the adjustments for "capital improvements" or "non-allowable plant" or "adjustments from previous cases" or "retirements".

The Order states that "ORS Audit Exhibit ICG-5 (Hearing Exhibit 18) shows the specific items composing the $1,624,696." However, that statement is simply incorrect. Audit Exhibit ICG-5 has a column entitled "ORS Adjustment" below which are amounts reflected for primary plant accounts, not items of plant. The adjustments in that column, by plant account, cannot be identified with specific items of plant or the specific cost of the items being adjusted, or ORS's stated reasons for the adjustments. For example, it cannot be determined from Audit Exhibit ICG-5 what items of plant were adjusted for "non-allowable plant" or what costs were adjusted for "non-allowable plant." Moreover, merely stating that an item of plant is non-allowable is not justification as to why it is not allowable and it is not sufficient evidence to support the Order. Audit Exhibit ICG-5 also fails to identify the adjustment being made to the elevated storage tank, well and facilities, or the amount of the adjustment.

With respect to "undocumented expenses" Mr. Guastella explained in rebuttal that an absence of some invoices should not constitute a lack of documentation for rate setting purposes, and that DIUC provided ORS with ample documentation, including itemized assets by primary

plant account, description, original costs as booked, year of installation and in service dates. *See* Transcript at 150–153. Mr. Guastella also testified that it is consistent with the NARUC Uniform System of Accounts to estimate the cost of utility plant in the absence of documentation. ORS should have estimated the reasonableness of the costs recorded and booked rather than adjusting for alleged "undocumented expenses," which implies some inappropriate action by DIUC.

With respect to adjustments from the previous case, ORS did not identify any of the specific items or their cost. As testified by Ms. Gearheart, "Those adjustments were simply carried over from the last rate case, and we do not retest or retry anything that was approved in the last rate case." Transcript at 526. The Order also includes reference to a "carryforward amount" of $4,615,755 from the previous rate case but that specific number is not in the record. It only appears in ORS's proposed order. Again, as is more fully explained previously herein, the Commission cannot rely on a previous order as justification for this type of analysis in a current case. *See Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 708 S.E.2d 755 (2011). Furthermore, DIUC's previous rate case was settled by agreement that specifically stated, "This stipulated rate base shall not be binding in future proceedings; instead, those proceedings will be determined based on the evidence presented in each docket and the applicable law." *See* PSC Order 2012-515 and Transcript at 525. This intermingling of matters within and outside the record along with using calculations specifically excluded by the last case's settlement must be addressed by the Commission.

Rate Base -- Elevated Storage Tank and Related Facilities

The Order also adopts the ORS/Intervenors' "settlement agreement" recommendation for an adjustment to the cost (unspecified amount) of the Elevated Storage Tank and related utility

facilities on the land that was sold in a tax sale, because of what is described as "reducing plant-in-service values for property tax purposes and uncertainty regarding what DIUC owns as a result of the delinquent tax sale." However, the Order misinterprets the evidence.

DIUC put into evidence the perpetual easement that allows DIUC to construct, operate and replace utility facilities. *See* Hearing Exhibit 8. Pursuant to the Assignment of Rights, filed at Beaufort County Register of Deeds, Book 2298, Page 2080, Haig Point, Inc. assigned to Haig Point Utility Company, Inc. its rights pursuant to the covenants previously quoted. Pursuant to Order of the Public Service Commission dated March 6, 2009, Haig Point Utility Company, Inc. was approved to and did change its name to Daufuskie Island Utility Company, Inc. (DIUC), the Defendant herein. According to The Haig Point General Covenants, Article 3, §18, DIUC holds the following:

> Certain Easements The company reserves unto itself, its successors and assigns, a perpetual, alienable and releasable easement and right on, over, and under the ground of the Property to erect, maintain, and use...drainage ways, sewers, wells, pumping stations, tanks, water mains, and other suitable equipment for the conveyance and use of...sewer, water, drainage or other public conveniences or utilities on...the property as may be reasonably required ... .

See Exhibit 8. As the rightful owner of the easements identified in Section 18 of the Haig Point General Covenants, DIUC's facilities are lawfully located on the Property. Also, contrary to the footnote in the Order, the easement is perpetual and DIUC does not have to re-record perpetual easements every time a parcel of land is sold; the rights granted under the perpetual easement have and will remain in effect.

DIUC also put into evidence the Special Warranty Deed and Bill of Sale transferring the Elevated Tank Site with all facilities thereon located as personal property. *See* Exhibit 8. Maria Walls, Beaufort County Treasurer, testified unequivocally that the storage tank and facilities were not sold to Mr. Sabry because the tax deed and tax sale procedure used was for residential

property; the County was not authorized to utilize that procedure to sell utility infrastructure. When asked if there was a building listed on the printout from a website presented by ORS, she said "A residential shed or small utility, yes." Transcript at 103. That residential shed, as noted on the residential tax record, is not an elevated water tank or water system infrastructure.

There should be no uncertainty about ownership of DIUC's storage tank and facilities. The storage tank and related utility facilities were not sold to Mr. Sabry. Further, late-filed Exhibit 6 indicates that the Beaufort County Assessor is valuing the property as residential property without reference to the tank and facilities on the property. *See* Exhibit 6 ("In fact, we have valued this property for several years, and the parcel is currently valued at $24,200 as of our 2013 [residential] Revaluation.") Clearly DIUC's storage facilities (some $1.3 million) are not included in that value. Moreover, Ms. Walls testified that DIUC's utility facilities at the site are being taxed as Utility Property of DIUC, and Mr. Guastella also testified that they are being assessed and taxed as Utility Property.

Conclusion

The "fundamental role of the PSC" in ratemaking decisions is to "consider all evidence before it and it does not serve as a "rubber stamp" for ORS's recommendations." *Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 115, 708 S.E.2d 755, 765 (2011). It is difficult not to see that the Commission's Order has effectively done just that by approving the proposed settlement between ORS and the Intervenors. For this reason, pursuant to S.C. Code § 58-5-330 and Regulation 103-854 of the South Carolina Code of Regulations, DIUC has submitted this Petition for Reconsideration and/or Rehearing.

The grounds for this Petition are that the Commission's Order dated December 8, 2015, is unlawful because it was not based upon reliable, probative, and substantial evidence on the

whole record, as is required by SC Code 58-5-240, and it does not establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties," as is required by the United States Constitution. *See Bluefield Waterworks and Improvement Company v. West Virginia Pub. Serv. Comm'n*, 262 U.S. 679, 692-693 (1923), and *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591 (1944); s*ee also Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 107 n.8, 708 S.E.2d 755, 761 (2011) citing *Bluefield Waterworks & Improvement Co. v. Public Service Comm'n of W. Va.*, 262 U.S. 679, 690, 43 S. Ct. 675, 67 L. Ed. 1176 (1923) (explaining that where the rates charged by a public utility company "are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service . . . their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment").

In considering this Petition, the Commission is empowered by SC Code §58-5-330 to "abrogate, change or modify" its December 8, 2015, Order and to substitute DIUC's Proposed Order "in the place of the order originally entered and with like force and effect." SC Code § 58-5-330. Respectfully, pursuant to SC Code § 58-5-330, DIUC requests this Commission rehear this matter and/or reconsider its December 8, 2015, Order Approving Settlement Among Certain Parties and Ruling on Application for Adjustments in Rates and that DIUC's Proposed Order submitted November 15, 2015, be substituted in its entirety to replace the Commission's Order.[4] Alternatively, DIUC requests this Commission revise the December 8, 2015, Order Approving

[4] DIUC requests its Proposed Order be substituted in its entirety. Although this Petition does not address every point of the Order, DIUC reserves its original positions as set forth in filings, testimony, and Proposed Order submitted to the Commission by DIUC on November 15, 2015.

Settlement Among Certain Parties and Ruling on Application for Adjustments in Rates to substitute DIUC's information from DIUC's Proposed Order as to property taxes, management fees, rate case expenses, bad debts, and rate base.

Respectfully submitted,

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ATTORNEYS FOR DAUFUSKIE ISLAND UTILITY COMPANY, INC.

December 21, 2015
Charleston, South Carolina

ATTACHMENT A

Impact of Commisson's Order
Accepting ORS/POA Settlement

		PSC Revenue Allowance
REVENUES		
Operating Revenues-Water		$821,375
Operating Revenues-Sewer		715,000
Total Revenues		$1,536,375
OPERATING EXPENSES		
O & M Expenses		$906,611
Rate Case Expense		47,800
Depreciation	b	93,089
Payroll Tax		13,212
Property Tax		258,227
Other Taxes		13,520
Income Taxes		22,904
Total Operating Deductions		$1,355,363
Net Operating Income	a	$181,012
Interest Expense		142,510
NET INCOME		$38,501
DEBT SERVICE		
$2.75 Million Term Loan		$265,974
$500,000 Line-of-Credit		12,150
	c	$278,124
CASH FLOW	a+b-c	($4,024)

SunTrust Bank - Loan Requirements

		$2.75M Note
Debt Service Coverage:		
Net Income + Deprec + Amort + Interest		$274,101
Principal & Interest		$265,974
Coverage Ratio	>1.50	1.03
Passed Test		**NO**
EBITDA Ratio:		
NOI + IT + Deprec + Amort		$297,005
Total Debt		$2,750,000
Ratio	< 6.00	9.26
Passed Test		**NO**

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS

IN RE:	)
	)
Application of Daufuskie Island Utility Company, Inc.	)
For Approval of a New Schedule of Rates and	)
Charges for Water and Sewer Service	)

DIUC'S RETURN TO ORS'S ANSWER TO AND INTERVENORS' OPPOSITION TO THE PETITION FOR RECONSIDERATION AND/OR REHEARING

Acting in concert, ORS and the Intervenors presented this Commission with a "settlement agreement" and proposed rates that do not provide DIUC sufficient funds to operate. On December 8, 2015, the Commission entered its Order Approving Settlement Among Certain Parties and Ruling on Application for Adjustments in Rates ("Order"). That Order violates state and federal law by failing to provide DIUC with sufficient revenue to operate and the Order jeopardizes water and sewer service to the residents of Daufuskie Island.

To demonstrate the problems inherent in the "settlement agreement" and the Order adopting it, DIUC filed a Petition for Reconsideration and/or Rehearing on December 21, 2015. DIUC's Petition succinctly presents the practical results of this flawed "settlement agreement." The Petition includes one attachment labeled *Attachment A* and captioned *Impact of Commission's Order Accepting ORS/POA Settlement.*

In response to DIUC's Petition for Reconsideration and/or Rehearing, both ORS and Intervenors submitted short filings opposing the Petition. *See* ORS Answer to DIUC Petition for

Reconsideration and/or Rehearing and Intervenors' Response in Opposition to Petition for Reconsideration. Reserving all rights to oppose the assertions of ORS and Intervenors, DIUC files this Return and respectfully presents the following.

1. The Petition and Attachment.

Unable to mount a plausible argument that the approved rates will not cause a default on the SunTrust loan, ORS and Intervenors seek to distract the Commission from the substance of DIUC's Petition by arguing that somehow the issue of default on the SunTrust loan is not part of the record before the Commission. That is simply not accurate.

At the hearing DIUC witness John Guastella testified:

> [T]he proposed settlement between ORS and the property owners of $462,000 will give this utility no return on equity. None. **And it will not give us enough money to pay our debt service on our existing loan**. **We will be in default because of all of these adjustments** and failure to include what are real costs of providing service in terms of capital and our real cost of providing service in terms of operating the utility.

(R. p. 186, ll. 12-21) (emphasis added). As Mr. Guastella explained, because the "settlement agreement" (and therefore the Order) does not incorporate the actual costs of providing services, the rates will not generate sufficient income for DIUC to meet its debt service obligations. One of those debt service obligations is the SunTrust loan.

Commissioner Fleming also elicited testimony from Mr. Guastella on the issue of default, specifically regarding the SunTrust loan. Mr. Guastella testified:

> What I'm a little more worried about is, the bank is looking at our operations now, and they are seeing us with a shortfall in meeting their coverage requirements. (R. p. 254, ll. 2-4).
>
> [. . .]
>
> ... well, if you kind people accept ORS's adjustments, our rate base is going to be wiped out, essentially. (R. p. 255, ll. 8-10).

[. . .]

> We are then not going to get the rate of return that ORS told you in that proposed settlement between those two parties. We're not going to have any return on equity, and we're not going to be able to make our debt service payments of principal and interest. It would put us right into bankruptcy. We need to have a real decision based on our real costs. (R. p. 255, ll. 12-19).
>
> [. . .]
>
> Daufuskie Island Utility has an obligation to SunTrust Bank. And with our rate increase, we're going to be in shape to continue to serve the customers without the danger ... But the rate increase of the proposed settlement, that $462,000, we're not going to be able to make debt service payments, stockholders get no return on equity. (R. p. 256, l. 23 to R. p. 257, l. 7).

ORS and the Intervenors both had the opportunity to cross examine Mr. Guastella as to the basis of these statements and his testimony for DIUC that under the rate increases in the proposed "settlement agreement" DIUC would surely default on the terms of the SunTrust loan. The failure by ORS and Intervenors to ask a single question about the specifics of the default does not mean the issue of default is not part of the record. To the contrary, because DIUC's position as to inevitable default went unchallenged by ORS or Intervenors, that conclusion is the only evidence in the record as to this point.

ORS and Intervenors also claim DIUC failed to tell the Commission at the hearing about the precise default that will result from the Order so reference to default should not be considered by the Commission. Obviously, DIUC could not tell the Commission about the exact impact of the Order until the Order was issued and its adjustments made available to DIUC. DIUC is certainly allowed to explain the impact of the Order in its Petition to Reconsider by directing the Commission to the costs and expenses in the record.

In another attempt to prevent the Commission from considering the severe financial duress the approved rates impose on DIUC, Intervenors cite *Kiawah Prop. Owners Group v.*

Pub. Serv. Comm'n, 359 S.C. 105, 113, 597 S.E.2d 145, 149 (2004) for the proposition that DIUC cannot raise issues in a Petition for Reconsideration that were not raised during the proceeding. However, as explained above, DIUC is not raising new issues. Default of the loan obligations to SunTrust was the subject of much unchallenged testimony by DIUC witness John F. Guastella. After choosing to ignore the testimony at the hearing as to the inevitable default and deciding not to cross examine about it, ORS and Intervenors cannot now assert such information is not in or should not be considered to be part of the record.

Intervenors also complain they did not have the opportunity to "test . . . the inputs and assumptions" in *Attachment A* to the Petition for Reconsideration. This is not an accurate statement. *Attachment A* merely reflects the $1,536,375 of combined water and sewer revenues allowed by the Order then subtracts the actual cost of operations DIUC will incur and book. The actual operating expenses of $1,355,363 listed in the Attachment are those reflected in DIUC's Proposed Order and the filings in this case. There are no surprises here.

ORS further complains that the Petition for Reconsideration should not reference the terms of DIUC's loan with SunTrust because the terms are not relevant. *See* Answer at 1-2. Of course DIUC's loan obligations, financing, and debt service are relevant; page after page in the record specifically address these topics.

Even more important are the responsibilities of the Commission to make sure that there are fair and reasonable rates that allow a utility to provide good water and sewer service to its customers and that afford the owner a reasonable rate of return. Forcing the utility into an inevitable default with SunTrust on its total loans of $3,250,000 jeopardizes the ability of the utility to provide service. Establishing rates that ignore the full amount of significant expenses that are known and measureable, simply to accommodate the unrealistic adjustments of ORS and

the Intervenors, deprives the owner of a fair and reasonable return. Under the Order, the individual principals in the owner will be unfairly exposed to personal liability on the guaranties SunTrust required. *See* R. p. 184, ll. 16-19 and R. p. 253, ll. 23-24.

Next, ORS asserts the SunTrust loan cannot be discussed in the Petition for Reconsideration because ORS's witness, Dr. Carlisle, "was not privy to these records and did not have the benefit of their review." ORS Answer at 2. However, the testimony cited by ORS for this position is not even related to the terms of the SunTrust loan:

> **Q** [WALKER]: They almost had Wells Fargo to the alter; they dropped them. Then they got with SunTrust and they had to do the significant reorganization of the company and a complete redo of surveys demonstrating that every asset was either titled in the company or there was an easement for that. And that is a considerable undertaking in order to satisfy the requirements of a lender to obtain the loan, correct?
>
> **A** [CARLISLE]: I would agree that sounds like a considerable undertaking. Not being privy to all the records, since they were outside the test year, I cannot and do not have the benefit of my colleagues' review of them.

(R. p. 534, ll. 9-20). From this exchange, it is clear that Dr. Carlisle was asked about the portions of the record demonstrating the considerable undertakings of DIUC and the corresponding expense incurred by DIUC simply to obtain financing, to refute ORS's adjustment limiting debt expense solely to the rate of interest. In response, Dr. Carlisle testified he did not have the benefit of his colleagues' review of records demonstrating this considerable effort to obtain financing.

ORS's Answer would have the Commission believe that DIUC somehow denied Dr. Carlisle access to records. To the contrary, if Dr. Carlisle was not privy to records, it was a failure of ORS to provide him with that information. DIUC provided ORS with the SunTrust Loan Covenants on June 26, 2015, in response to Continuing Information Request 1.77.

On August 26, 2015, DIUC also provided Intervenors with the SunTrust Loan Covenants by serving a CD containing a copy of all of DIUC's responses to ORS Information Requests, including the response to Continuing Information Request 1.77. Therefore, long before the hearing both Intervenors and ORS had possession of copies of the SunTrust loan documents that include the loan covenants. There is certainly no prejudice to either ORS or the Intervenors from DIUC's Petition or its Attachment.

The problem before the Commission is not that DIUC presents new issues or even new data in its Petition for Reconsideration. The problem is that the December 8, 2015, Order adopting the "settlement agreement" will not allow DIUC to earn enough income to meet its obligations which will put DIUC in default on its existing financing with SunTrust. For the Commission to refuse to consider the entire Petition for Reconsideration and Attachment, as suggested by ORS and Intervenors, would be to oblige them in their entreaties that the Commission overlook the hard and known expenses of DIUC and, instead, adopt a series of adjustments that in fact do not render the rate of return or operating margin they proclaim. Succumbing to their position will only force DIUC to engage in further costly and inefficient appeals in order to obtain lawful rates, all the while putting the sound operation of the utility at risk.

2. Adjustments Addressed in ORS's Answer and Intervenors' Opposition.

ORS's position on DIUC's property taxes reflects an inexplicable abandonment of the well-established rate setting concept of adjusting the test year for known and measurable changes, without which DIUC cannot cover the *actual cost* of property taxes even for the first year the new rates are in effect. Referring to Ms. Gearheart's testimony, ORS's position is that 2015 is a future year and DIUC has not been billed for 2015 taxes. *See* ORS Answer at 2. Both

statements are simply incorrect. DIUC was billed and has been paying for 2015 property taxes as part of the total installment agreement with Beaufort County.

ORS also states that it "does not know what the future taxes will be." ORS Answer at 2. This position completely misses the purpose and intent of rate setting principles and practice, which is to establish the ongoing cost of providing service. In addition to the binding agreement with Beaufort County for the 8-year installment payments for the 2012, 2013, 2014 and 2015 property taxes, it is a known, indisputable fact that DIUC's revenues must now —this year on a current basis— include accruals for 2016 property taxes. Both Mr. Guastella and Ms. Walls testified to that fact. Additionally, Ms. Walls warned that if accruals for 2016 property taxes, including ongoing installment payments for past taxes under the favorable settlement agreement with the Beaufort County, are not now allowed, DIUC will incur 15% penalties annually, and possibly other consequences. (R. p. 84, ll. 11-23 and R. p. 85, ll. 1-5).

The Order must be revised to establish rates sufficient to cover these known and therefore reasonably anticipated property tax liabilities.

ORS also significantly reduced its realistic adjustment to bad debt allowance to a far lower amount for no other reason than to reach its deal with the Intervenors. Simply reciting this negotiated result does not provide a factual basis as to why it was proper for ORS to disregard its own examination of DIUC's books and records that demonstrated to ORS's satisfaction the actual bad debt level should be in excess of $100,000 per annum. This reduction is further evidence of why the Commission cannot accept "settlements" between ORS and parties without the consent of the Applicant because it gives the impression of validity to the adjustments that are part of the "settlement." The only reliable evidence is that the approximate $100,000 for bad

debts reflects the utility's known and measureable real loss. (R. p. 136, ll. 21-25 to R. p. 137, ll. 1-10).

ORS has still not provided any narrative or quantitative analysis that justifies its adjustments to limit recovery of the management fees charged by Guastella Associates. ORS continues to ignore the unrefuted evidence that:

> 1. DIUC's cost of operations, including management fees, compares favorably to other South Carolina water and wastewater utilities (R. p. 179, ll. 19 to R. p. 181, l. 5);
>
> 2. GA's capital fees are less than half of such typical fees (R. p. 206, ll. 7-14); and
>
> 3. Despite the three year effort to obtain essential financing, the existing debt rate, including GA's costs, is only 6.2%. That is less than the specified 6.5% effective debt interest rate allowed in the approved settlement of the last rate case. (R. p. 254, ll. 13-20).

The settlement of the last DIUC rate case (with the consent of ***all*** parties) and its approval by the Commission makes no mention of GA's management fees. That Order cannot properly be used as a basis for limiting the management fees allowed in this case. In sum, ORS's Answer provides no new arguments regarding management fees and charges due to GA. The Order should be modified as requested.

With respect to rate case expenses, ORS's Answer asserts that ORS expressed its concern about the level of such expenses during its audit. Discussing a matter during an audit or audit exit conference does not relieve ORS from providing the Commission with evidence that the challenged expenses are unreasonable. ORS provided no benchmark for measuring the reasonableness of the amounts due Guastella Associates under its management agreement. As the record reflects, DIUC was required by ORS to respond to voluminous discovery and to address the testimony of multiple witnesses and complex issues. ORS allowed only about 20%

of DIUC's actual costs under the management agreement, but still has not presented any valid argument for the reduction. On this subject, the Order is not supported by the record and should be changed.

ORS admits in its Answer that Mr. Sabry is not paying taxes on the elevated storage tank. The record demonstrates that Mr. Sabry is paying residential taxes on a structure described as "Residential Shed – Small Util" with a value of $3,800 as of 2014. The record does not support ORS's suggestion that the small residential utility shed on the property to the side of DIUC's elevated storage tank and related facilities raises an uncertainty about DIUC's ownership of the elevated storage tank. It is undisputed that DIUC is paying property taxes on the elevated storage tank, that the tank is used and useful, that county's assessment for all the real property owned by Sabry does not include it, and DIUC also has an easement over the parcel for its utility facilities.

Also, contrary to ORS's Answer, DIUC did not revise its annual reports to the Department of Revenue ("DOR") by lowering property values and eliminating the value of the elevated storage tank. DIUC's amended returns reflected a prorated adjustment to ***all*** primary plant accounts to reflect the $5,000,000 rate base that was part of the settlement in the last rate case. In turn, DOR lowered its total assessed value and DIUC's customers benefited by a reduction of the annual property taxes. DIUC's original cost of utility plant in service and net investment were not revised for book or rate setting purposes. Finally, there is absolutely nothing in the record to suggest that DIUC claimed a lack of ownership of its elevated storage tank. Indeed, the proration of the $5,000,000 rate base allocated all plant, including the elevated storage tank, as reflected in the report submitted to DOR. *See* R. at Exhibit 20, p. 2 ("Adjusted to reflect the rate base allowed in Docket No. 2011-229-WS.").

Conclusion

If the Order remains unchanged, DIUC cannot meet its obligations and will be in default of its debt service obligations, including its contractual debt obligation to SunTrust. At the hearing, John Guastella for DIUC testified that the adjustments proposed by the ORS/Intervenors and later accepted by the Order:

> ...will not give us enough money to pay our debt service on our existing loan. We will be in default because of all of these adjustments and failure to include what are real costs of providing service in terms of capital and our real cost of providing service in terms of operating the utility.
>
> ---
>
> ...we're not going to be able to make our debt service payments of principal and interest. It would put us right into bankruptcy. We need to have a real decision based on our real costs.
>
> ---
>
> But the rate increase of the proposed settlement, that $462,000, we're not going to be able to make debt service payments....
>
> ---
>
> ...the bank is looking at our operations now, and they are seeing us with a shortfall in meeting their coverage requirements.

DIUC, therefore, clearly provided ORS, Intervenors, and the Commission notice that the adjustments proposed by the "settlement agreement" and later accepted by the Order would result in default under the SunTrust loan requirements. Neither ORS nor the Intervenors asked Mr. Guastella to further explain his testimony, leaving his conclusions uncontradicted in the record. Therefore, the Petition and its Attachment are properly before the Commission.

Additionally, as set forth in the Petition for Reconsideration and in this Return, the Order's conclusions as to property taxes, management fees, rate case expenses, bad debts, and rate base are without factual foundation and ignore known and measurable expenses. If allowed to stand, the Order will put DIUC in default.

DIUC's Proposed Order submitted November 15, 2015, should be substituted in its entirety to replace the Commission's December 8, 2015, Order. Alternatively, the Commission

should revise the December 8, 2015, Order to substitute the information from DIUC's Proposed Order as to property taxes, management fees, rate case expenses, bad debts, and rate base. Should the Commission prefer to schedule a rehearing of this matter, DIUC remains willing to proceed expeditiously.

Respectfully submitted,

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January 12, 2016
Charleston, South Carolina

STATE OF SOUTH CAROLINA
In the Supreme Court

APPEAL FROM THE PUBLIC SERVICE COMMISSION

Docket No. 2014-346-WS

Daufuskie Island Utility Company, Inc.,

Appellant,

v.

South Carolina Office of Regulatory Staff,
Haig Point Club and Community Association, Inc.,
Melrose Property Owner's Association, Inc.,
Bloody Point Property Owner's Association, and
Beach Field Properties, LLC,

Respondents.

NOTICE OF APPEAL

Daufuskie Island Utility Company, Inc. appeals the Decision and Order of the Public Service Commission entitled Order Approving Settlement Among Certain Parties and Ruling on Application for Adjustments in Rates Commission dated December 8, 2015, (Order No. 2015-846) and the Decision and Order of the Public Service Commission Denying Applicant's Petition for Reconsideration and/or Rehearing dated February 25, 2016, (Order No. 2016-50). Copies of the Orders are attached. Because the Orders set a public utility rate under Title 58 of the South Carolina Code of Laws, this Appeal is filed in the South Carolina Supreme Court pursuant to Rule 203(d)(2), SCACR. Appellant received written notice of entry of the Order Denying Applicant's Petition for Reconsideration and/or Rehearing on February 25, 2016.

March 22, 2016

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BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2015-846

DECEMBER 8, 2015

IN RE:	Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	) ORDER APPROVING) SETTLEMENT AMONG) CERTAIN PARTIES AND) RULING ON) APPLICATION FOR) ADJUSTMENTS IN) RATES

I. Introduction

This matter is before the Public Service Commission of South Carolina (the "Commission") on the Application ("Application") of Daufuskie Island Utility Company, Incorporated ("DIUC" or "the Company") filed on June 9, 2015, seeking approval of a new schedule of rates and charges for water and sewer service that DIUC provides to its customers within its authorized service area in South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A.

In the Application, DIUC requested an increase in revenues for combined operations of $1,182,301, consisting of a water revenue increase of $590,454 and a sewer revenue increase of $591,847. The revenue increase utilizes a return on equity ("ROE") of 10.5% based on the rate of return on rate base methodology and a 2014 historical test year. Tariff changes to bring the rates between the Haig Point and Melrose communities to uniformity were also requested.

DIUC's last rate case before this Commission was in Docket No. 2011-229-WS. In that case, Commission Order No. 2012-515 approved a Settlement entered into by the Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs"); and DIUC that was not objected to by the South Carolina Office of Regulatory Staff ("ORS"); whereby DIUC received a revenue increase of $291,485 based on a $5,000,000 rate base; an operating margin of 16.64%; and an ROE of 8.81%. DIUC also agreed not to seek another rate adjustment prior to July 1, 2014.

DIUC's South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class B water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending December 31, 2014. The Commission's approved service area for DIUC is on Daufuskie Island located in Beaufort County, South Carolina.

The Commission's Clerk's Office instructed DIUC to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by DIUC's Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. The Commission also instructed DIUC to notify each affected customer by mailing or, where the customer had previously agreed to electronic notice, by e-mailing each customer a copy of the Notice of Filing. DIUC filed Affidavits of Publication and

Mailing demonstrating that the Notice of Filing had been duly published and provided to all customers.

Petitions to Intervene were filed on behalf of the POAs on July 23, 2015, and Beach Field Properties, LLC ("Beach Field") on July 27, 2015.

Subsequent to their intervention, the POAs requested that the Commission schedule a public night hearing at a convenient time and location for customers of DIUC to present their comments regarding the service and rates of DIUC. In response, the Commission held a public night hearing pursuant to Order No. 2015-586. Under this Order, a public hearing was set and noticed by the Commission, and the Company provided an affidavit certifying that it had provided notice of the date, time and location of the local public hearing via publication in The Beaufort Gazette and The Island Packet. On September 15, 2015, the Commission held a night hearing beginning at 6:00 pm at the Haig Point Club Clubhouse, 130 Clubhouse Lane, Daufuskie Island, South Carolina.[1]

On October 28, 2015, the Commission, with Chairman Nikiya "Nikki" Hall presiding, heard the matter of DIUC's Application beginning at 10:30 am at the Commission Hearing Room located at 101 Executive Center Drive in Columbia, South Carolina.

DIUC was represented by G. Trenholm Walker, Esquire, and Thomas P. Gressette, Jr., Esquire. The POAs were represented by John J. Pringle, Jr., Esquire.

[1] Hearing Exhibit 1 consists of the night hearing sign-in sheets and Hearing Exhibit 2 consists of comments filed by public witness Andy Mason.

Beach Field was represented by Margaret M. Fox, Esquire. ORS was represented by Shannon Bowyer Hudson, Esquire, and Andrew M. Bateman, Esquire.

At the hearing on October 28, a Settlement[2] between the POAs and ORS was entered into the record after an objection to it by DIUC was overruled. DIUC, the POAs and ORS presented testimony and exhibits after one public witness, Mr. Reid Delancy,[3] testified. Mr. Delaney testified that he owns property on which assets are located and utilized by DIUC for its regulated water and sewer business.

DIUC presented the testimony of: John F. Guastella[4] (direct and rebuttal testimony), President of Guastella Associates, LLC ("GA"), a utility management, valuation and rate consulting firm headquartered in Boston, Massachusetts; Gary C. White (direct), Vice President and Director of Accounting at GA; Eric Johanson (direct), DIUC Chief Operator; and the Honorable Maria Walls[5] (rebuttal), Beaufort County Treasurer. Mr. Guastella and Mr. White testified as a panel about the management and finances of DIUC. Mr. Johanson's testimony addressed the operations of DIUC. Mr. Johanson was excused from the hearing without appearing before the Commission after

[2] The Settlement, denominated "Settlement Agreement," and containing five exhibits was entered into the record as Hearing Exhibit 3. Under the Commission Settlement Policy, a "settlement" is a document which fully or partially resolves a proceeding. In this case, the three Property Owners Associations and the Office of Regulatory Staff entered into an agreement which resolves issues among those parties. This agreement would be classified as a "settlement" under the Commission Settlement Policy, even though neither DIUC nor Beach Field Properties, LLC were parties to the agreement, and the document was originally referred to in the Motion approved at the Commission meeting as a "Stipulation." Pursuant to this reasoning, the document denominated as a "Settlement Agreement" by the settling parties will be referred to as the "Settlement" throughout the remainder of this Order.

[3] Hearing Exhibit 4 is a survey provided by Mr. Delaney.

[4] Hearing Exhibit 7 consists of Guastella Direct Exhibits A and B. Hearing Exhibit 8 consists of Guastella Rebuttal Exhibits 1 through 5. Hearing Exhibit 9 is the GA Management Agreement. Hearing Exhibit 10 consists of the ORS and POAs responses to DIUC's discovery requests.

[5] Hearing Exhibit 5 consists of Walls Rebuttal Exhibit A.

his testimony was accepted into the record without objection from the other parties. Ms. Walls provided testimony on property taxes.

The POAs presented two panels of witnesses. The first panel consisted of Paul Vogel[6] (direct), Haig Point Club and Community Association resident; Doug Egly[7] (direct), Chief Operating Officer of the Haig Point Association; and Tony Simonelli (direct), real estate broker on Daufuskie Island. The second panel consisted of Lynn M. Lanier[8] (direct) and Charles Loy[9] (direct and surrebuttal), Principals of GDS Associates, Inc., a utility consulting and engineering firm with its principal offices in Marietta, Georgia; and Harry Jue[10] (direct), water and sewer consultant with Hussey Gay Bell Engineering. POA witnesses Vogel, Egly, and Simonelli presented testimony illustrating the points of view of their respective organizations, and each providing testimony opposing DIUC's request. POA witness Loy provided expert testimony regarding accounting and rate base issues. POA witness Lanier provided expert testimony on the overall Application and incorporated Mr. Loy's recommended adjustments. Beach Field did not pre-file or present testimony at the Commission hearing.

ORS presented the testimony of Douglas H. Carlisle[11] (direct), ORS Economist; Ivana C. Gearheart[12] (direct), ORS Audit Manager; and Willie J. Morgan[13] (direct and surrebuttal), ORS Deputy Director for the Water and Wastewater Department, in a panel.

[6] Hearing Exhibit 11 is Vogel Exhibit 1.
[7] Hearing Exhibit 12 is Egly Exhibit 1.
[8] Hearing Exhibit 14 consists of Lanier Exhibits 1 through 5. Exhibit 3 was revised at the hearing.
[9] Hearing Exhibit 15 is Loy Surrebuttal Exhibit 1. Hearing Exhibit 16 is Loy Direct Appendix A.
[10] Hearing Exhibit 13 is Jue Exhibit 1.
[11] Hearing Exhibit 17 is Carlisle Direct Exhibits 1 through 10.
[12] Hearing Exhibit 18 is Gearheart Direct Exhibits 1 through 8.
[13] Hearing Exhibit 19 is Morgan Direct Exhibits 1 through 8. Hearing Exhibit 20 is Morgan Surrebuttal Exhibits 1 and 2.

Dr. Carlisle's testimony included an analysis and recommendation for an ROE. Ms. Gearheart's direct testimony described ORS's examination of the Application and DIUC's books and records as well as the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Morgan's direct testimony focused on DIUC's compliance with Commission rules and regulations, ORS's business office compliance review, inspections of DIUC's water and wastewater systems, test-year and proposed revenue, and performance bond requirements.

II. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

Standards and Required Findings

DIUC's Application was filed pursuant to S.C. Code Ann. Sections 58-5-210 and 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A. In considering the Application, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. Thus, the Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of DIUC to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for DIUC based on the record and any increase must be just and reasonable and free of undue discrimination. DIUC has also asked this Commission to establish revenues based on an authorized ROE which is established to allow DIUC the opportunity to earn a fair return.

After evaluation of the positions of the parties, the Commission reaches the legal and factual conclusions below based on its review of the facts and evidence of record.

The evidence supporting the Company's business and legal status is contained in the Application filed by DIUC, testimony, and in prior Commission orders in the docket files of the Commission, of which the Commission takes judicial notice.

Test Year

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's operating margin or, in this case, a return on rate base, and, consequently, the validity of the utility's requested rate increase. In order to determine what a utility's expenses and revenues are for purposes of determining the reasonableness of a rate, one must select a 'test year' for the measurement of the expenses and revenues. *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data. *See Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); *see also, Parker v. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984), *citing City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 P.A. Super. 341, 144 A.2d 648 (1958).

In its Application, DIUC utilized a historic test year – the twelve months ending December 31, 2014, with adjustments for 2015 expectations. ORS also used the 2014 historical test year for two reasons: 1) because it was chosen by DIUC and 2) the underlying transactions in the 2014 books could be tested to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. (Gearhart Direct, R. p. 489). Consistent with generally accepted regulatory principles, ORS adjusted, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base. The POAs also utilized a 2014 historic test year with adjustments. (Loy Direct, R. p. 397).

Based on the information available to the Commission and the fact that all parties agreed to a calendar year 2014 test year, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 2014, is appropriate for the purposes of this rate request.

Rate of Return on Rate Base

DIUC requested that its rates be determined in accordance with the rate of return on rate base methodology. The determination of rate of return on rate base requires three components: 1) capital structure; 2) cost of debt; and 3) cost of equity (or return on equity). However, by statutory requirement, the Commission must specify an allowable operating margin in all water and wastewater orders. S.C. Code Ann. § 58-5-240(H). Although the Commission must specify an operating margin in its order, this does not mean that the operating margin methodology must be used in determining a fair rate of

return. *Heater of Seabrook* at p. 64 and 830. Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation." *Id.* No party contested the use of the rate of return on rate base methodology and given the size of DIUC's rate base the Commission finds the rate of return on rate base methodology appropriate in this case.

Capital Structure and Cost of Debt

With respect to the capital structure, DIUC recommended a pro forma capital structure of 41.2% debt and 58.8% equity. ORS witness Dr. Carlisle testified there are two concerns with the method DIUC used to calculate its capital structure: 1) DIUC included pro-forma long-term debt in its long-term debt calculation; and 2) DIUC proposed an inflated equity amount. (Carlisle Direct, R. p. 472). Dr. Carlisle noted that both result in an increase in the ROE. (Id.)

The pro forma debt is based on the cost of debt DIUC expects, and as Dr. Carlisle noted, the outcome of DIUC's negotiations with banks or lenders is unknown at this time; therefore, DIUC's pro forma debt should not be included. (Carlisle Direct, R. p. 473). The POAs also agreed that debt should not include future amounts. (Lanier Direct, R. p. 436, ll. 8-14). Dr. Carlisle further testified that DIUC's capital structure is weighted more heavily with equity, which is more expensive than debt. (Carlisle Direct, R. p. 473).

In contrast to a projected or pro forma capital structure, ORS recommended a hypothetical capital structure of 46% long-term debt and 54% equity calculated by

averaging the known capital structure used by water companies in the United States with publicly traded stock. (Id.) The POAs produced an adjusted capital structure of 57.55% debt and 42.45% equity (Hearing Exhibit 14, Amended Lanier Exhibit 3), based on a downward adjusted rate base, which is discussed later in this Order. In the Settlement, the POAs agreed to the capital structure proposed by the ORS.

As to the specific cost of debt rate, DIUC recommended 6.20%. The POAs testified that 6.20% is relatively high in the current interest rate environment, but is probably a reasonable rate given DIUC's precarious financial state. (Lanier Direct, R. p. 436). To calculate the 6.20% debt rate, DIUC included anticipated legal and GA fees in the financing fees. In support of the debt amount, Mr. Guastella testified the debt he used is based on his knowledge of prior financing costs applied to the costs expected to be incurred for future refinancing. (Guastella, R. p. 243). As a percentage of the total debt, the anticipated fees are 13.56% per ORS's calculations.

ORS did not incorporate the additional fees into the debt rate because the fees are a large percentage of the total debt and did not originate from a lending institution. ORS recommended that the actual debt rate being paid by DIUC to the current lending institution, 5.29%, be used. (Gearheart Direct, R. p. 497). In the Settlement, the POAs agreed to the 5.29% cost of debt recommended by the ORS.

Upon consideration of evidence, the Commission adopts the capital structure, 46% long-term debt and 54% equity, and debt rate, 5.29%, recommended by ORS since they are based on known data instead of expected events. The Commission declines to

use the POA's capital structure because it is based on adjustments to DIUC's rate base (discussed in the Rate Base section below) that this Commission declines to adopt

Cost of Equity/Return on Equity

DIUC witness Guastella testified that the requested 10.5% ROE is based on his experience and judgment. (Guastella Direct, R. p. 193). The POAs' witness Lanier testified, "This is the same rate the Company requested in its 2012 rate case[14], which was a specified rate, rather than a rate developed through justification of the ROE required to meet its needs for profit margin and to attract the needed debt capital." (Lanier Direct, R. p. 437, ll. 1-4).

In contrast to DIUC, ORS's Dr. Carlisle recommended an ROE of 9.31% based on a range of 8.91% to 9.71% using results from the Discounted Cash Flow model ("DCF"), Capital Asset Pricing Method ("CAPM") and the Comparable Earnings Model ("CEM"). (Carlisle Direct, R. pp. 471 and 474). Dr. Carlisle testified the DCF and CAPM are known and generally accepted methods for determining a recommended ROE. (Id.) The POAs testified that the DCF is the prevailing method used for determining appropriate ROEs. The POAs also testified that, while the DCF and CAPM are recognized as methods for calculating ROEs, the DCF and CAPM provide challenges since there are not many publicly traded companies similar to DIUC. (Lanier Direct R. p. 442).

For his analyses, Dr. Carlisle examined data on companies with publicly traded stock of which more data is available, because DIUC requested rates based on rate of

[14] The merits hearing for DIUC's last rate case in Docket No. 2011-229-WS was held in 2012.

return. (Carlisle Direct R. p. 475). Companies with publicly traded stock yield more data than what is available for privately held companies, according to Dr. Carlisle. (Id.) Specifically, Dr. Carlisle testified that he used publicly traded companies classified as "water utilities" by Value Line or *Yahoo! Finance* for his DCF and CAPM, since they are in the same line of business as DIUC and share similar risks. (Id.) For his CEM analysis, Dr. Carlisle used companies with comparable betas to those of the companies used in his DCF and CAPM group. (Id.)

DIUC did not provide analyses similar to those used by Dr. Carlisle; however, Schedule A-3 of DIUC's application shows the following references to ROE:

Connecticut DPUC Formula:

Average Large Company	9.69%
Small Company Adder	0.50%
Performance Adder	0.50%
	10.69%

Florida PSC Leverage Graph Formula:

5.6% + (2.279 / Equity Ratio)		= ROE
Range	100%	= 7.88%
	40%	=11.30%
Equity Ratio	58.8%	= 9.47%

There is no discussion of these components in Schedule A-3 or in testimony, with the exception of Mr. Guastella's rebuttal testimony containing the following single

sentence, "Under the Connecticut Public Utilities Regulatory Authority formula for return on equity for small companies, the rate of return on equity for DIUC is 10.69%." (Guastella Rebuttal, R. p. 221). ORS provided no testimony on either the Connecticut or Florida ROE formulas. The POAs could find no other reference to the Connecticut formula and challenged DIUC's portrayal of the Florida formula.

Witness Lanier for the POAs testified, "[S]imply including a formula on a schedule and a calculated number is not sufficient rationale to support a ROE, particularly of 10.5%, when the company is requesting a revenue increase of over 100% in order to achieve such return." (Lanier Direct, R. p. 439, ll. 7-9). The POAs acknowledged Dr. Carlisle as a source to support an appropriate ROE, and the POAs pre-filed direct testimony recommended an ROE in the range of 8.5% to 9.0% in consideration of a lower rate base and based on various examples of DIUC's "irresponsibility in its operations since the rate increase authorized in 2012 and in the use of debt funds, in view of the critical need for cash." (Lanier Direct, p. 441, ll. 2-3). The POAs did not provide their own analysis for an ROE using a commonly-accepted and widely-accepted methodology such as DCF or CAPM.

In summary, DIUC requested an ROE of 10.5%; ORS recommended an ROE of 9.31% based on a range of 8.91% to 9.71%; and the POAs recommended an ROE in the range of 8.5% to 9.0%.

Upon consideration of the testimony of the various witnesses, the Commission adopts the range set forth in evidence as produced by ORS. ORS used the well-known and commonly-accepted DCF method, CAPM, and CEM for developing its range of

8.91% to 9.71%. Those methods, as applied by ORS, are grounded in sound analysis. While the POAs also considered the well-known analyses and some different analyses for determination of the rate of return on equity, the POAs did not actually perform the DCF, CAPM, and CEM studies that ORS performed. Therefore, this Commission finds the ROE range proposed by the POAs and DIUC's ROE recommendation lacking in support and analysis. Also, in the Settlement, the POAs and the ORS agreed to an ROE that falls within the range of Dr. Carlisle and rounds to his recommended ROE of 9.3%.

Rate Base

The rate base proposed by DIUC for combined operations was $7,085,475. [15] In support of its rate base, DIUC included several plant assets, particularly a 125,000 gallon elevated water storage tank, well and facilities (the "facilities") which are located on real property not owned by DIUC. Specifically, the facilities are located on real property (the "Site") that, as described below, was sold at a delinquent tax sale. DIUC does not dispute that it is not the owner of the Site.[16] However, DIUC offered testimony and evidence that it owns these facilities, and asserts that 1) the tax sale did not include the storage tank, well and facilities, only the Site; 2) DIUC pays property taxes to Beaufort County for the facilities; 3) DIUC has the right to operate those facilities on any parcel of land in the

[15] See Application Schedule A-4; however the December 31, 2014 rate base total from Application Schedules W-B and S-B totals $6,914,024.
[16] A 10,000 gallon ground level storage tank is located on another piece of property and excluded from rate base by ORS for lack of proof of ownership. (Morgan Direct R. p. 511 and Hearing Exhibit 19 - Exhibit WJM-8).

Haig Point development[17]; and 4) these facilities are "used and useful" in providing water service. (Guastella Direct, R. p. 195, Walls Rebuttal, R. pp. 82-83). DIUC offered the testimony of the Beaufort County Treasurer Maria Walls who stated the Company is paying a utility tax on water system infrastructure. (Walls Rebuttal, R. p. 83).

Both ORS and the POAs excluded the facilities from rate base. ORS testified that DIUC did not provide enough information for ORS to determine whether or not DIUC is the owner of those facilities. (R. p. 502 and Morgan Surrebuttal, R. p. 517). ORS excluded the facilities from rate base in Docket No. 2011-229-WS. (Morgan Surrebuttal, R. p. 516 and Gearheart Direct, R. p. 496). In support of its position that DIUC had not supplied sufficient information to demonstrate ownership of the facilities, ORS entered into evidence a December 2011 Beaufort County government Tax Deed ("Tax Deed") conveying the Site in a delinquent tax sale. (Hearing Exhibit 19 – Exhibit WJM-7). The delinquent tax sale occurred as a result of DIUC's failure to pay taxes. The Tax Deed describes the property sold as the "Elevated Tank Site" and further states the "Elevated Tank Site's" "premises" and "appurtenances" are granted to Mamdouh Sabry Abdelrahman ("Mr. Sabry"). Mr. Sabry, the grantee, is not associated with DIUC. (R. p. 156).

With respect to the overall rate base, the POAs recommended that DIUC's rate base as proposed $7,085,475 be reduced by $3,745,530 as a result of 1) increased accumulated depreciation, 2) contributions in aid of construction ("CIAC") and 3) CIAC

[17] With respect to DIUC's access to the facilities on land it does not own, DIUC testified it has a perpetual easement to the facilities, however, no evidence was produced of a perpetual easement or any easement recorded after the sale of the property. (R. p. 156 and Hearing Exhibit 8).

amortization. (Loy Direct, Table 1, R. p. 371). Witness Mr. Loy for the POAs testified that Generally Accepted Accounting Principles ("GAAP") and appropriate regulatory accounting required that accumulated depreciation be calculated on a straight-line basis from the "in service" date through the end of the test year. (Loy Direct, R. p. 371). In addition, Mr. Loy testified that an adjustment increasing accumulated depreciation "reflects the proper age and condition of the utility property," (Loy Direct, R. p. 371).

POAs witness Mr. Jue echoed Mr. Loy's conclusion, opining that the DIUC system "would be expected to reflect accumulated depreciation of approximately 30%." (Jue Direct, R. p. 362). Mr. Loy also testified that certain DIUC plant purchased from Haig Point Utility Company ("HPUC") should be classified as CIAC rather than invested plant. According to Mr. Loy, International Paper (the original owner of HPUC) and later Haig Point, Inc. ("HPI") treated the utility plant in HPUC as inventory, expensed those costs, and donated those assets to HPUC. (Loy Direct, R. p. 380). As support for this conclusion, Mr. Loy testified that HPUC Water Annual Reports for the years 2000-2003 showed no plant balances at all. (Loy Direct, R. p. 381). Mr. Loy asserts that the failure to classify plant as CIAC requires adjustments to both net plant and CIAC amortization. Mr. Loy also testified that the appropriate characterization of DIUC plant as CIAC would greatly reduce the DIUC property tax burden, both for back taxes (a reduction of $402,108 for tax years 2011-2013) and in the test year (a reduction of $115,995 for tax year 2014). (Loy Direct, R. p. 396).

In sum, the POAs recommended adjustments, largely to net utility plant, accumulated depreciation, contributions in aid of construction, and accumulated

amortization to CIAC that would reduce the rate base for combined operations to $3,276,311.

By contrast, ORS used the carryforward rate base from the last rate case in Docket No. 2011-229-WS, $4,615,755, and made adjustments through December 31, 2014[18]. (R. p. 524.) Using DIUC's utilization factor method with ORS's adjustments, ORS recommended that $1,932,858 be deducted from the Company's December 31, 2014, Application rate base. Of the amount deducted, $1,624,696 is gross plant in service representing non-allowable plant, adjustments from the previous case not carried forward by DIUC in this Application, and retirements. (Gearheart Direct, R. p. 496.)

ORS Audit Exhibit ICG-5 (Hearing Exhibit 18) shows the specific items composing the $1,624,696. ORS also increased accumulated depreciation by $141,198 and deducted $254,853 from Construction Work in Progress ("CWIP"). Accumulated amortization of CIAC added $213 to the above gross plant in service, accumulated depreciation, and CWIP adjustments to arrive at a total net plant deduction of $2,020,534. When $87,676 in working capital was added, the total rate base reduction became $1,932,858. (R. ORS Audit Exhibit ICG-1, Hearing Exhibit 18). After deducting the rate base adjustment from the Application Schedule W-B and S-B December 31, 2014, rate base of $6,914,024, ORS's recommended rate base for combined operations was $4,981,166. In summary, DIUC's recommended rate base was $7,085,475, the POAs' was $3,276,311, and ORS's was $4,981,166.

[18] For the carryforward amount, ORS used the rate base it calculated in the prior rate case instead of using the Settlement rate base in Docket No. 2011-229-WS.

After reviewing the evidence presented by DIUC, ORS, and the POAs, the Commission accepts the rate base determination methodology and adjustments proposed by ORS. The Commission cannot accept the rate base as proposed by DIUC, given the murky status of the equipment on the tax sale land. (See discussion below.) The ORS methodology is logical in its steps and sets forth sound methods for determining a proper rate base on which a return may be granted. Considering the number of rate cases and all that has occurred since International Paper owned the utility, the Commission declines to adopt the rate base proposed by the POAs, However, the Commission's conclusions regarding DIUC's rate base do not preclude the parties from taking a different position in future proceedings if appropriate.

The Facilities

DIUC bears the burden of demonstrating the reasonableness of the plant values included in its proposed rate base, particularly when, as here, ORS and the POAs have challenged some of those values. *Utility Services of South Carolina, Inc. v. SCORS*, 392 S.C. 96, 109, 708 S.E.2d 755 (2011). The Commission agrees that DIUC has not met its burden in demonstrating the reasonableness of the plant values associated with the facilities. DIUC is permitted to earn a return only on the plant that it owns. 10 S.C. Code Ann. Regs. 103-702.16 defines "plant" as "[a]ll facilities *owned* by the utility for the collection, production, purification, storage, transmission, metering, and distribution of potable water." (Emphasis added). It is undisputed that DIUC does not own the Site, the real property upon which the elevated storage tank is located.

With respect to the facilities, although it is uncontested those assets are used and useful for DIUC, DIUC has not demonstrated that it "owns" these facilities for purposes of including their values in rate base. First, the late-filed Exhibit 6, a Letter from Gary N. James, Assessor for Beaufort County, states that in 2009 the Beaufort County Assessor's Office showed the property "as having a water tank/tower." Second, the Tax Deed states the "appurtenances to the" "Elevated Tank Site" were conveyed to Mr. Sabry. While "appurtenances" is not defined in the Tax Deed, the Black's Law Dictionary (9th ed.) definition of the term "appurtenance"- "[s]omething that belongs or is attached to something else"-- suggests that the facilities were "appurtenances."

Similarly, the evidence in the record is conflicting regarding what property was transferred by the Tax Deed. DIUC witness Walls testified in her pre-filed testimony that the Tax Deed did not include any DIUC utility property, and further that Mr. Sabry is not taxed for the facilities. (R. p. 83). However, on cross examination by ORS, Ms. Walls stated she could not answer the question of whether the elevated storage tank is an "appurtenance" that would have been conveyed in the grant to Mr. Sabry. (Walls, R. p. 100). Further, Hearing Exhibit 19 (Exhibit WJM-7), a printout from the Beaufort County website and describing the Elevated Tank Site, shows that Beaufort County is taxing Mr. Sabry, not DIUC, for at least one building on the property (described as a "UTLSHED").

With respect to the question of whether DIUC pays property taxes to Beaufort County based upon the value of the facilities, the record is also unclear. ORS witness Morgan testified that based on conversations with the SC Department of Revenue ("DOR"), Beaufort County and DIUC, ORS understands that DOR utilizes the utility

plant-in-service values DIUC lists on Schedule 201 (Utility Plant-in-Service) of the Water Annual Report to value the amount of property subject to tax by Beaufort County. (Morgan Surrebuttal, R. p. 516). DIUC submitted Revised Water Annual Reports to ORS and the Commission for years 2012 and 2013. (Hearing Exhibit 20). In the Revised Water Annual Reports filed by DIUC, DIUC made adjustments on Schedule 201, adjusting the value of the utility plant-in-service by ($1,110,715) for 2012 and ($893,781) for 2013. ORS testified these amounts appear to correspond to the plant asset value of $863,379 removed by ORS for the elevated storage tank in Docket No. 2011-229-WS. (Id.)

ORS witness Morgan testified that he understood that DIUC specifically filed Revised Water Annual Reports for 2012 and 2013 to reflect the rate base allowed in Docket No. 2011-229-WS which would likely result in a reduction of the property valuation computed by DOR for DIUC. (Id.) Mr. Morgan stated it also appears that the Water Annual Report filed by DIUC for 2014 includes similar adjusted plant-in-service values. ORS's position is that DIUC should not be allowed to earn a return on the elevated storage tank for ratemaking purposes while at the same time having taken action that could reduce property taxes by revising annual reports to deduct a value corresponding to the elevated storage tank value. (Id. at 516-517).

The Commission agrees with ORS that DIUC's adjustments reducing plant-in-service values for property tax purposes, as well as the uncertainty regarding what DIUC owns as a result of the delinquent tax sale, support removing the value of the facilities from DIUC's rate base in this case. DIUC's actions in removing plant for reporting

purposes and thereby removing the corresponding tax obligations associated therewith, are inconsistent with the proposition that DIUC owns those assets for ratemaking purposes. While DIUC may not have adjusted its utility plant-in-service by the exact value of the elevated storage tank, in at least two tax years DIUC has reduced its total utility plant-in-service by a value very similar to (and actually exceeding) that of the elevated storage tank.

In other words, and contrary to its testimony, DIUC does not pay taxes on all of its utility plant-in-service that it claims to be part of its rate base in this Docket. The Commission concludes that removal of the facilities from rate base is therefore appropriate in these circumstances at this time. DIUC has attempted to condemn the real property at issue, however, the legality of the Company's condemnation of the land which was sold at a Tax Sale is presently before the South Carolina Court of Appeals for a ruling. Should the Court rule in favor of the Company, then the issue of ownership of this property and possible inclusion in rate base may be clearer for further examination in a future rate case.

Also, regarding the question of Company facilities located on the real property of private owners, public witness Delaney raised the issue of a treatment plant on his private property in Bloody Point which has not been addressed by the Company. We believe that the Company should attempt to resolve this issue as soon as possible, and file the general status reports on utility property located on private land as required by our "ordering section" below.

Property Taxes

Since the last DIUC rate case in 2011, all parties agree that DIUC has had difficulties concerning property taxes DIUC did not pay 2009 and 2010 property taxes when due. As discussed above, DIUC lost property in a delinquent tax sale as a result. DIUC testified that Beaufort County mailed the tax bills to the wrong address. (Guastella, R. p. 139). In addition, the Company's 2012, 2013, and 2014 Beaufort County property taxes were significantly higher than what they had been in years prior. (Id.) At issue among the parties is how much property taxes should be paid by the ratepayers.

After learning about the delinquent taxes, DIUC and the Beaufort County Treasurer entered into a settlement agreement that was entered into evidence. The settlement agreement allowed DIUC to pay Beaufort County monthly payments of $5,487.95 to cover property taxes totaling $526,843.39 for 2012, 2013, 2014, and 2015. The Beaufort County Treasurer testified that the monthly payment was derived by amortizing the $526,843.39 over eight years. (Walls Rebuttal, R. p. 83, *see also* Hearing Exhibit 5). Originally the amount was $651,267.27, but the settlement agreement was amended to the reduced amount of $526,843.39 after the SC Department of Revenue ("DOR") submitted lower asset values to Beaufort County. (Id.)

With respect to its property tax request in this case, DIUC requested additional annual property tax expense of $65,856 for the 2012, 2013, 2014 and 2015 taxes and $ 188,093 for the annual amount of taxes going forward. DIUC's property tax expense request totaled $258,158 ($4,209 per books plus $65,856 plus $188,093). (Guastella Rebuttal, R. p. 212). The POAs recommended that DIUC's tax expense be based on the

POAs' downward-adjusted rate base. (Loy Direct, R. p. 367). ORS testified that DIUC's current books reflected approximately $4,000 annually for property taxes and, with the ORS adjustments, DIUC would have $171,492 annually to cover property taxes.

Specifically, ORS recommended that DIUC receive $30,612 annually for the 2012 and 2013 taxes totaling $244,899 amortized over 8 years and $140,880 for the 2014 or test year taxes. (Gearheart Direct, R. p. 495). ORS based its 2012 and 2013 adjustment amount and amortization period on DIUC's settlement with Beaufort County. The 2014 adjustment was based on the actual tax bills/assessment. ORS witness Gearheart testified that ORS allowed amounts for the 2012 and 2013 taxes, because DIUC did not have an opportunity to request a rate increase to cover the taxes after agreeing to a moratorium through July 1, 2014, in the settlement in Docket No. 2011-229-WS. (Id.). ORS declined to allow property taxes for 2015 since ORS utilizes a historical test year.

Based on the evidence in the record and adopting the property tax analysis in the section entitled "The Facilities" above, the Commission adopts the property tax amounts as computed by ORS as they are based on known and measurable amounts. The Commission acknowledges that the 2015 property taxes appear to be set pursuant to the Settlement; however, we do not believe the 2015 amounts should be covered by ratepayers. The 2015 tax bill is not due until 2016 and this Commission notes that the Company's settlement agreement with Beaufort County has already been amended once, and could be amended in the future. We decline the POAs property tax recommendation since the POAs based their recommendation on a lower rate base amount that we do not

adopt. Also, the POAs agreed to the ORS property tax recommendations in the Settlement. Further, we reject the Company's property tax recommendation, since it is based in part on the questionable ownership status of real property as noted above.

Management Fees, Rate Case Expenses, and Other Expenses

DIUC has a contract with GA for management services which was entered into evidence. (Hearing Exhibit 9.) In it, and confirmed through cross examination by the POAs and ORS, DIUC acknowledged that it agrees to pay GA a management fee of $13,596.85 a month with an annual 3.5% increase; a finance fee of 2% of the principal amount of any loan or GA's actual total hourly rates for handling the loan, whichever is greater; a capital fee of 10% for the first $50,000 of construction and 8% for construction costs over $50,000; an incentive fee of 20% of the total net utility operating income; an incentive fee if DIUC is sold; rate case expenses; travel expenses; and expenses related to regulatory investigations and proceedings.

In its Application, DIUC requested that ratepayers cover $171,364 for management services paid to GA. Per ORS, DIUC also included an incentive fee in its test year management fees. (Gearheart Direct, R. p. 493). POA witness Lanier testified that the Commission should not allow DIUC to use its higher expenses related to GA to justify the need for a rate increase. (Lanier Direct, R. pp. 421-422). ORS recommended that GA's management fees be limited to the previously Commission-approved amount of $132,211 a year. (Gearhart Direct, R. p. 539). ORS testified that it found no apparent increases in the management services provided by GA and did not find the requested increase justified.

DIUC requested $191,200 for current and unamortized rate case expenses to be recovered over 4 years. (Guastella Rebuttal, R. p. 218). DIUC also testified that it would update its rate case expenses at the hearing to show the additional expenses incurred since the Application. (Guastella, R. p. 181). ORS proposed that rate case expenses total $97,500 and be amortized over five years. (Gearheart, Direct R. p. 494). The $97,500 consists of capped current rate case expenses in the amount of $75,000 for GA's preparation of the Application, developing rate models, calculating test year data, filing other rate case documents and legal expenses. ORS recommended $75,000 as a reasonable amount for rate case expenses in the last rate case. The remaining $22,500 is unamortized rate case expenses from the previous rate case. (Gearheart, Direct R. p. 495).

ORS excluded from operating and maintenance expenses the incentive fee[19] included in the test year and $25,439[20] representing GA's management fee, legal expenses related to the property tax appeal and tax sale of the water tower, and other expenses not allowable for rate making purposes. (Gearheart, Direct R. p. 493). DIUC witness Guastella disputed all exclusions noting "[GA's] efforts reflect an unequivocal commitment to provide adequate service to the customers, some of which were achieved because of GA's rate setting expertise that is not typical of other managers." (Guastella Rebuttal, R. p. 198). "Having consulted for some 600 developer-related water and sewer utilities, I am not aware of any that had managers with the regulatory, utility accounting, valuation, or rate setting experience that GA applied in meeting the challenges of

[19] *See* ORS Adjustment 4(m).
[20] *See* ORS Adjustment 4(g).

managing DIUC." (Guastella Rebuttal, R. p. 218). DIUC witness Guastella also testified, contrary to ORS's testimony, that the existing and proposed rates do not include any allowance for GA's incentive fee. (Guastella Rebuttal, R. p. 216).

Upon review of the evidence, the Commission adopts ORS's adjustments for management fees, rate case expenses, and non-allowable expenses. We agree that GA provides services to the ratepayers, but disagree that the services are at a level that warrant the amount set forth in the management services contract. We think it is appropriate for DIUC stockholders to have responsibility for the difference. While customer service complaints are few in number, this Commission did hear testimony at the merits hearing that GA was an absentee management company.. Mr. Guastella testified that he and his son live in Florida, the Vice President and Director of Accounting Mr. White lives in New York or Florida, and the accounting and billing for the Company is performed in Boston. (Guastella Direct, R. p. 256.) Further, he stated that the Company's books are in either Boston, Florida, or New York at various times. (Guastella, R., p. 255.) *See also* Lanier, R. p. 461.

It is undisputed that DIUC did not pay property taxes under GA's tenure (resulting in the tax sale described above), that required regulatory reports and fees have been filed and paid late (R. p. 244), and that the South Carolina Department of Health and Environmental Control ("DHEC") issued a notice of violations against DIUC (Vogel Direct, R. p. 319, ll. 14-16). We conclude the ORS-recommended amount for management expenses strikes a reasonable balance. The Commission agrees with ORS's judgment that $75,000 in rate case expenses is a reasonable amount to pass to ratepayers

for this rate case. We also agree that the amortization period and the inclusion of unamortized rate case expenses from the last rate case are reasonable. The reasons set forth for excluding the non-allowable expenses are persuasive, and those costs should not be passed on to ratepayers. The Commission is in agreement with ORS as to the removal of these expenses in the present case, which complies with sound regulatory treatment.

Bad Debt Expense

In its Application, DIUC proposed bad debt expense associated with its proposed *pro forma* revenues to equal $16,090. Initially, ORS provided testimony proposing to adjust that expense upward to $108,349. (Gearheart Direct, R. p. 498). In the Settlement between the ORS and the POAs, and consistent with DIUC's request in its Application, ORS revised its adjustment to bad debt expense to utilize the methodology proposed by DIUC in its Application. (R. pp. 502-503). The bad debt expense is included in operation and maintenance expenses reflected in Settlement Exhibit ICG-3. The Commission accepts the bad debt expense methodology proposed by DIUC and adopted by ORS and the POAs in their Settlement. We conclude that this bad debt expense methodology is just and reasonable, particularly because it encourages DIUC to collect those debts it is owed.

Other Adjustments

The remaining ORS adjustments are accepted by this Commission without discussion. They either were not disputed by the parties or were caused by carrying out the effects of the adjustments adopted above.

Performance Bond

DIUC is currently providing the maximum amount required for its performance bond in the amount of $350,000 for water and $350,000 for sewer operations. Using the criteria set forth in 10 S.C. Code Ann. Regs. 103-512.3.1 and 103-712.3.1, ORS recommended that DIUC be required to continue the current performance bond amounts. DIUC and the POAs did not challenge the performance bond amounts. Accordingly and pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, the Commission requires that DIUC maintain its performance bond in the amount of $350,000 for water and $350,000 for sewer operations.

Settlement

On October 27, 2015, the POAs and ORS filed with the Commission a Settlement, whereby the POAs and ORS agreed to recommend to the Commission a revenue increase of $462,798 for DIUC's combined water and sewer operations. The Settlement includes five exhibits based on the revenue stated in the document, with the first exhibit setting forth a proposed rate structure, the second exhibit showing the percentage increase for the proposed rates and the third, fourth, and fifth exhibits showing the operating experience, rate base and rates of return. The Settlement and its exhibits are hereby incorporated into this Order as fully as if repeated verbatim herein. . The revenue was determined by accepting all of ORS' recommended adjustments, with the exception that ORS agreed to recalculate its recommended bad debt expense to adopt the calculation methodology utilized by DIUC in its Application. No other changes were made by ORS to its adjustments. The Settlement states the $462,798 revenue increase

produces an ROE of 9.28% and an operating margin of 16.18% for the combined operations. The Settlement's proposed revenue increase, $462,798, is 39.1% of the Company's requested revenue.

At the outset of the hearing and after counsel for the POAs introduced the Settlement into the record, DIUC objected to its inclusion stating that it would be improper for the Commission to consider or rule upon its terms without hearing all evidence. The objection was duly noted and overruled, since it was decided that the better practice is to accept a Settlement when presented, but continue to hear all evidence in the case prior to making a ruling on the merits of the case.

The Commission finds, based on the testimony of DIUC, the POAs and ORS, that an increase in rates is supported by the evidence presented. DIUC has not applied for a rate increase in several years as it was prevented from doing so pursuant to the Settlement approved in its last rate case in Docket No. 2011-229-WS. Expenses have increased during the last four years, and the Company is entitled to a fair and reasonable return to allow it to serve its customers at the same level.

After reviewing the evidence in this case, we adopt and approve the Settlement and its exhibits. The Settlement includes all ORS adjustments with the exception of the bad debt expense. ORS testified that it recalculated its bad debt expense to reflect the calculation recommended by DIUC in its Application. The use of the Company's bad debt expense calculation methodology causes a downward adjustment of working capital and therefore rate base. The rate base ORS recommended in its direct testimony changes from $4,981,166 to $4,962,927 in the Settlement as a result. We find the use of the

Company's recommended bad debt expense calculation reasonable and approve the resulting rate base and Settlement in its entirety. The Settlement revenue amount produces an operating margin of 16.18%. Further, the 9.28% ROE is within the ORS-recommended range adopted by this Commission of 8.91% to 9.71% and is within 3/100's of a point to the ORS-recommended ROE of 9.31%. The Settlement will permit the Company to cover operating costs and provide an opportunity to earn the approved rate of return on rate base. The resulting ROE allows DIUC the opportunity to earn a fair return and we agree with ORS that the Settlement is in the public interest.

III. FINDINGS OF FACT

1. DIUC is a water and sewer utility providing water and sewer service in its assigned service area on Daufuskie Island, Beaufort County, South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Ann. §58-5-210, *et. seq.* DIUC's operations in South Carolina are subject to the jurisdiction of the Commission.

2. DIUC requested in its Application to increase revenues for combined operations by $1,182,301, consisting of a water revenue increase of $590,454, and a sewer revenue increase of $591,847, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a 2014 historical test year.

3. The appropriate test year period for this proceeding, selected by the Company, is January 1, 2014 through December 31, 2014.

4. The Commission will use the return on rate base methodology in determining and fixing just and reasonable rates.

5. The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or return on equity).

6. The Commission adopts and approves the Settlement in its entirety as it sets forth a fair return along with just and reasonable rates, and its terms are based on the evidence of record. The approved rates are attached hereto as Order Exhibit 1.

7. The approved Settlement utilizes a capital structure of 46% long-term debt and 54% equity; a cost of debt rate of 5.29%; and an ROE of 9.28%.

8. The Settlement ROE of 9.28% produces additional operating revenue of $462,798 consisting of a water revenues increase of $278,903 and a sewer revenue increase of $183,895.

9. The Settlement sets DIUC's rate base at $4,962,927.

10. The approved Settlement's revenues and expenses establish a fair and reasonable operating margin of 16.18%, and a return on rate base of 7.44%.

IV. CONCLUSIONS OF LAW

Based upon the Discussion, Findings of Fact as set forth herein, and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. DIUC is a public utility as defined in S.C. Code Ann. § 58-5-10(3) and as such is subject to the jurisdiction of this Commission.

2. The appropriate test year on which to set rates for DIUC is the twelve month period ending December 31, 2014.

3. Based on the information provided by the parties, the Commission concludes the appropriate rate setting methodology to use as a guide in determining the lawfulness of DIUC's proposed rates and for the fixing of just and reasonable rates is return on rate base.

4. In order for DIUC to have the opportunity to earn the 9.28% ROE, found fair and reasonable herein, DIUC must be allowed additional revenues of $462,798.

5. The rates as set forth in the attached Order Exhibit 1 are approved for use by DIUC and are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of DIUC.

6. Pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103-712.3, DIUC shall post a performance bond of $350,000 water and $350,000 for sewer operations.

V. ORDERING PROVISIONS

IT IS THEREFORE ORDERED THAT:

1. The Settlement is in the public interest, constitutes a reasonable resolution of this proceeding, and is supported by the evidence in this case. The Settlement is therefore approved.

2. The proposed rates, fees, and charges in Order Exhibit 1 are both fair and reasonable and will allow DIUC to continue to provide its customers with adequate water and wastewater services. We further find that the additional terms and conditions set forth in the Settlement are reasonable and fair.

3. The Company is to provide thirty (30) days' advance notice of the increase to customers of its water and wastewater services prior to the rates and schedules being put into effect for service rendered. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. § 58-5-240.

4. A return on equity of 9.28%, return on rate base of 7.44%, and operating margin of 16.18%, based on the new rates, fees, and charges, is approved for DIUC.

5. The Company shall continue to maintain current performance bonds in the amounts of $350,000 for water operations and $350,000 for wastewater operations pursuant to S.C. Code Ann. § 58-5-720.

6. The Company's books and records shall be maintained according to the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts. The Company is directed to make any necessary adjustments to its accounting system to conform to the NARUC Uniform System of Accounts.

7. The Company should promptly address all property ownership issues wherein utility facilities are located on private property, and notify the Commission and ORS in writing as to the status of ownership within six months of the date of this Order and every six months thereafter until resolved.

8. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Nikiya Hall, Chairman

ATTEST:

Swain E. Whitfield, Vice Chairman

(SEAL)

Settlement Exhibit WJM-1

Daufuskie Island Utility Company, Inc.
Schedule of Current and Proposed Rates
Docket No. 2014-346-WS

		Haig Pt. Settlement Rates	Melrose Settlement Rates
I. Residential Rates			
A. Water:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Base Quarterly Charge		$80.81	$105.05
3) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$4.41	$4.41
	Over 22,500 gallons	$4.41	$4.41
B. Sewer:			
1) Tapping Fees & Service Lateral		$500.00	$500.00
2) Base Quarterly Charge		$143.65	$105.05
3) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.38	$2.38
	Over 22,500 gallons	$2.38	$2.38
C. Irrigation:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$4.85	$4.85
	18,001 to 60,000 gallons	$5.73	$5.73
	Over 60,000 gallons	$6.61	$6.61
II. Commercial Rates			
A. Water:			
1) Tapping Fees per Hotel or Inn Room		$250.00	$250.00
2) Tapping Fees up to 1-1/2" Meter		$500.00	$500.00
3) Tapping Fees 2" or 3" Meter		$1,500.00	$1,500.00
4) Tapping Fees for 6" Meter		$3,500.00	$3,500.00
Note: Larger meters on a case by case basis.			
5) Base Quarterly Charge		$113.17	$177.77
6) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$4.41	$4.41
	Over 22,500 gallons	$4.41	$4.41
B. Sewer:			
1) Tapping Fees per Hotel or Inn Room		$250.00	$250.00
2) Tapping Fees 4" - 8" Sewer Pipe		$500.00	$500.00
3) Base Quarterly Charge		$231.93	$177.77
4) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.38	$2.38
	Over 22,500 gallons	$2.38	$2.38
C. Irrigation:			
1) Tapping Fees & 3/4" Meter Box		$500.00	$500.00
2) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$4.85	$4.85
	18,001 to 60,000 gallons	$5.73	$5.73
	Over 60,000 gallons	$6.61	$6.61

Settlement Exhibit WJM-1

III. Availability Rates (Quarterly)

A. Water	$40.40	$99.38
B. Sewer	$71.83	$110.72

III. Special Conditions

A. Tapping Fees:

Haig Point - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.* *This applies to lots purchased prior to date of this order, but not to lots sold after the date of this order. (See Commission Order No. 93-761 in Docket No. 87-333-WS)

Melrose - Capacity in the water and sewer systems has been reserved for purchasers of lots and/or building sites at Haig Point. Tapping Fees must have been paid and water and sewer charges commenced within five years from purchase date.

B. Backflow Prevention: All irrigation systems and pipes running from potable water lines must have approved backflow prevention devices installed.

C. System Development Charge: Should new customers or their agent(s) petition to connect to the systems where there are no existing lines, pumps, hydrants, etc.; and should such petitions be approved, the following requirements shall apply:

1. New customers or their agent(s) shall be responsible for the cost of installation of the new water and sewer systems, including points of connection with existing systems and effluent return systems. The installation shall be according to the requirements and satisfaction to the utility company, and costs shall include observation, testing, and certification services provided by utility company.

2. New customers or their agent(s) who install their systems must pay an amount equal to their share of the net investment in the existing plant and system facilities. This payment, on a cost per gallon of design flow, will be made according to the System Buy -In Pricing Basis (AWWA Manual 26, First Edition), based on the following formula.

a. System Original Cost - Accumulated Depreciation = Net Cost

b. Net Cost - Outstanding Debt = Total Equity*

$$\text{c. Flow (Total design gallons per day)} = \frac{\text{Total Equity Investment}}{\text{System Water or Sewer}} = \$/\text{gallons}$$

*For these calculations, the utility company's annual report to the PSC for the preceding year shall be used. Extra strength wastewaters will be charged accordingly.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2014-346-WS - ORDER NO. 2016-50

FEBRUARY 25, 2016

IN RE: Application of Daufuskie Island Utility Company, Incorporated for Approval of an Increase for Water and Sewer Rates, Terms and Conditions	))))	ORDER DENYING PETITION FOR RECONSIDERATION AND/OR REHEARING

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("the Commission") on the Petition for Reconsideration and/or Rehearing of Order No. 2015-846 ("the Petition") filed by Daufuskie Island Utility Company, Inc. ("DIUC," "the Company" or "the Utility").

The Company argues that, if forced to implement rates as established by the Commission's December 8, 2015 rate order, it will default on its obligations and its ability to provide service will be threatened. DIUC further states that its operating results and adjustments showing gross revenues and expenses are the only numbers that should be considered in judging whether the Company can meet its obligations on its loan from SunTrust Bank, or whether the various expense amounts allowed by the Commission in Order No. 2015-846 are reasonable. See Order No. 2015-846 at 1. DIUC states that "The DIUC Proposed Order must be substituted in its entirety so as to prevent a host of problems, including DIUC's loan default." The Company characterizes the Commission's decision as being inadequate to allow it to service its debt, and also complains that the Commission

approved inadequate amounts for property taxes, management fees, rate case expenses, bad debts, and rate base. Based on the reasoning stated below, the Petition is denied.

By law, this Commission must examine a utility's proposed figures during a test year, and make adjustments to those numbers when appropriate. The Commission will consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data under the case law. See Heater of Seabrook v. Public Service Commission of South Carolina, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996). Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E. 2d 278 (1978); see also, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958). See also Order No. 2015-846 at 7. The testimony presented to the Commission showed several atypical test year figures, which are discussed further below. Clearly, this Commission may determine that some portion of an expense actually incurred by a utility should not be passed on to consumers. See Utilities Services of South Carolina, Inc. v. The South Carolina Office of Regulatory Staff, 392 S.C. 96, 708 S.E. 2d 755 (2011).

In this case, the Office of Regulatory Staff ("ORS"), consistent with accepted regulatory principles, proposed adjustments to the Company's proposed revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base, using a 2014 test year in conformance with these principles, and proffered

testimony accordingly. The three Property Owners Associations ("POAs"), which are Haig Point Club and Community Association, Inc., Melrose Property Owner's Association, Inc., and Bloody Point Property Owner's Association, also utilized a 2014 historic test year with proposed adjustments. The Commission outlined this process in detail in Order No. 2015-846, and ultimately made a determination to accept an agreement between ORS and the POAs which utilized mostly ORS adjustments, with one exception, which was an adjustment proposed by the Company's Application. These adjustments were based on relevant evidence and were accepted by the Commission for ratemaking purposes to determine the appropriate adjustments to the Company's rates in the case as explained in Order No. 2015-846. Many of the expense figures proposed by the Company were adjusted downward, consistent with the evidence.

The operating results and adjustments showing gross revenue and expenses discussed by the Company are unadjusted numbers and are inappropriate for determining a utility's level of revenue and expenses for ratemaking purposes without adjustment under Commission procedures. Thus, it is unrealistic and contrary to regulatory principles for the Company to state that its operating results and adjustments are the "actual" numbers, and must be the only numbers used for ratemaking purposes, and that the Company's operating results and adjustments are the only numbers that should be used for determining whether certain ratios are met to determine proper service of the Company's SunTrust loan. The "book" methodology proposed by the Company assumes that the Company's ratepayers are responsible for 100% of all expenses incurred by the Company. The Commission's procedure in ordering just and reasonable rates ensures that the Company

collects only what should reasonably be paid by the Company's customers. The Utility's shareholders are responsible for the remainder in cases where proposed expenses are found to be unreasonable under Commission procedures.

II. SPECIFIC COMPANY ARGUMENTS

A. DEFAULT AND LOAN COMPLIANCE

With regard to specific points raised by the Company in its Petition, DIUC has stated that it will default on its obligations with SunTrust Bank, and that its ability to provide service will be threatened if it is forced to implement rates required by Order No. 2015-846. The witnesses for the Company testified extensively with regard to a new loan that it hoped to obtain, which would replace the present SunTrust loan discussed in the Company's Petition. There is very little testimony in the case about the present loan.

With regard to the loan at issue, the Utility alleges in its Petition that the loan documents for the SunTrust Bank financing approved by this Commission in Docket No. 2012-397-WS, Order No. 2013-605, include covenants that put DIUC in default if it does not maintain a minimum debt service coverage and minimum Earnings Before Interest, Taxes, Depreciation, and Amortization ratio. (Petition at 3.)

Unfortunately, these referenced loan documents are not in the record of this case. They were not pre-filed, nor were they offered as evidence. Further, a review of Docket No. 2012-397-WS, Order No. 2013-605, in the loan approval Docket shows that no loan documents were filed or placed into evidence in that case either. The record of this case only contains bare assertions by the Company that the Company will be unable to service its debt under the rate schedule required under Order No. 2015-846. The Petition and

Attachment A to the Petition attempt to characterize the effect the Order will have on the Company's compliance with the Covenants, offering detailed additional opinions that were not offered via testimony during the hearing. As such, no party could test those opinions, or the inputs or assumptions leading to those opinions by cross-examining a witness making them, nor could a party inquire or cross-examine a Company witness about the figures contained in the loan documents or the effect of utilization of the Commission-approved numbers to determine various ratios required by SunTrust. This raises major due process concerns for the opposing parties. See Vora v. Lexington Medical Center, 354 S.C. 590, 582 S.E. 2d 413 (2003). At the very least, these issues were prejudicial to the parties.

In general, a party cannot raise issues in a Petition for Reconsideration that were not raised during the proceeding. See Kiawah Prop. Owners Group v. Pub. Serv. Comm'n, 359 S.C. 105, 113, 597 S.E.2d 145, 149 (2004); Hickman v. Hickman, 301 S.C. 455, 456, 392 S.E.2d 481, 482 (Ct. App 1990); Patterson v. Reid, 318 S.C. 183, 185, 456 S.E.2d 436, 437 (Ct. App. 1995). While Company witness Guastella made a bare assertion at the hearing, which is referenced in the Petition, regarding the effect of adoption of the rates approved in the Settlement Agreement, the specific issues and characterizations of the Covenants, DIUC's operation under the Covenants, and SunTrust's putative actions pursuant to the Covenants raised in the Petition and discussed in Attachment A were not raised during the hearing. As a result, the Commission cannot address these issues on reconsideration.

Further, in the alternative, even if the documents on the loan were part of the record in the case, there is no present justiciable controversy with regard to the SunTrust Bank

loan. A court is obligated to inquire in every action whether a justiciable controversy exists in a matter. Treatment and Care of Luckabaugh, 351 S.C. 122, 568 S.E. 2d 338 (2002); Byrd v. Irmo High School, 321 S.C. 426, 468 S.E. 2d 861 (1996). "A justiciable controversy is a real and substantial controversy which is ripe and appropriate for judicial determination, as distinguished from a contingent, hypothetical or abstract dispute." Pee Dee Elec. Coop., Inc. v. Carolina Power & Light Co., 279 S.C. 64, 66, 301 S.E. 2d 761, 762 (1983). In the present case, DIUC states the following: ".....when SunTrust analyzes DIUC's books to determine if DIUC is in compliance with the terms of its loan, SunTrust will review the books DIUC presented to the Commission that reflect the Utility's actual expenses and bad debts." Petition at 4. This language highlights the contingent or hypothetical nature of the issue.

Further, the Company argues that collecting at the approved rates, there will be no money for equity return and DIUC will fail SunTrust's tests for debt service coverage and the Earnings Before Interest, Taxes, Depreciation, and Amortization ratio. Also, "the lack of income allowed to DIUC by the recent Order will put DIUC in default on its $2,500,000 term loan and will preclude DIUC's ability to repay its $500,000 line of credit." Petition at 3. Again, the Utility is describing a future contingent or hypothetical event. The only information provided is a bare assertion by the Company as to what could happen in the future. There is no evidence that SunTrust Bank has examined these issues. Loan provisions that may have some negative impact in the future cannot constitute a present, justiciable controversy. See Kiawah Property Owners Group v. The Public Service Commission of South Carolina, 357 S.C. 232, 593 S.E. 2d 148 (2004)

Further, it is important to point out that even if the matter constituted a justiciable controversy, and the relevant documents had been filed by the Company, the usefulness and propriety of those documents under ratemaking principles may not have had any bearing on the outcome of this case. The Company's long-term debt and capital structure were fully considered in this case by ORS witness Dr. Douglas H. Carlisle (Carlisle Direct, R. pp. 472-473), and the Commission considered these factors in its deliberations in this case. An examination of long-term debt and capital structure take into consideration debt such as that incurred with the Utility's SunTrust Bank loan. Therefore, even if the specific SunTrust loan documents had been in the record, the evidence may not have justified any other rates than the rates that were set in our original order in this case, Order No. 2015-846.

To summarize, the Commission cannot now consider that portion of the Petition characterizing the effect of Order No. 2015-846 on the Covenants, or the entirety of Attachment A to the Petition, since the documents were not submitted into the record under Commission rules, nor was a Company witness presented to explain and present the documents. This is tantamount to not raising the issue at all during the hearing on the merits. Moreover, even if this Commission considered DJUC's bare assertions in the record as sufficient to raise the matter at the hearing, the Company failed to meet its burden of proof, since it presented no detailed testimony and no exhibits concerning its position on the matter. Further, a matter cannot be raised for the first time on reconsideration, nor can the Commission rule on a matter that is not a justiciable controversy. In addition, even if the Company had furnished the requisite documents, and the SunTrust loan was squarely

before the Commission, the Company's long-term debt and capital structure, which included the debt incurred by the SunTrust Bank loan, were considered by the Commission through the testimony of ORS witness Carlisle. Consequently, we reject the Company's arguments on this issue.

B. ADJUSTMENTS FOR RECONSIDERATION

In the alternative, the Company requests rehearing or reconsideration of adjustments granted in Order No. 2015-846 for property taxes, management fees, rate case expenses, bad debts, and also asks for rehearing/reconsideration on two rate base matters. The Company failed to provide any new arguments on these matters, so we affirm our original holdings, and comment further in the paragraphs below.

Clearly, with the exception of affiliate transactions, a utility is entitled to a presumption in a ratemaking proceeding that its expenditures were reasonable and incurred in good faith. Nevertheless, the presumption in a utility's favor clearly does not foreclose scrutiny and a challenge. In these circumstances, the burden remains on the utility to demonstrate the reasonableness of its costs. Utilities Services of South Carolina, 392 S.C.at 110 and 708 S.E. 2d at 763. See also Hilton Head Plantation Utilities, Inc. v. The Public Service Commission of South Carolina, 312 S.C. 448, 441 S.E.2d 321 (1994). As in Utilities Services, the Utility in the present case wants the presumption of reasonableness to be dispositive. However, as in Utilities Services, it is not. The Company failed to meet its burden in the face of substantial evidence presented by ORS and other parties challenging its expenditures. Further, in the case of the management fees, the Utility is not entitled to the presumption, as will be explained further below.

i. **Property Taxes**

DIUC asks the Commission to reconsider the property tax expenses allowed for DIUC. ORS's recommendation supports DIUC recovering $171,492 annually from ratepayers to cover taxes utilizing the per book amount, the 2012 and 2013 tax amounts, and the 2014 test year amount. It is undisputed that DIUC did not pay Beaufort County taxes in 2009 and 2010. Unpaid property taxes were the cause of the delinquent tax sale of DIUC property in 2011. In addition, Beaufort County and DIUC entered into a Property Tax Settlement Agreement, amended once, for the payment of taxes for years 2012, 2013, 2014, and 2015. ORS recommended that DIUC receive $30,612 annually for the 2012 and 2013 taxes totaling $244,899 amortized over 8 years and $140,880 for the 2014 or test year taxes. ORS allowed amounts for the 2012 and 2013 taxes, because DIUC did not have an opportunity to request a rate increase to cover the taxes after agreeing to a moratorium through July 1, 2014, in the settlement in Docket No. 2011-229-WS.

With respect to the 2015 taxes, of which ORS declined to support recovery by DIUC, ORS testified that in the normal course taxes are due the following tax year, 2016. Specifically, ORS witness Gearheart testified that 2015 taxes were not allowed because 2014 was the test year, 2015 is a future year, DIUC has not been billed for the 2015 taxes, and ORS does not know what the future taxes will be. (R. p. 518, ll. 14-25; p. 519, ll. 1-16). Because of this testimony, the Commission declined to allow an amount for 2015 taxes, because the amount was outside the test year, was not known and measurable, and the 2014 property tax amount was properly included in the test year expenses.. Although this Commission could have considered and allowed this out of test year amount if

appropriate evidence had been presented, this Commission declined to do so, based on the ORS testimony described above. Under normal application of the use of a test year, the Company would have been granted one year's property tax expense. The fact that the Company has delinquent taxes is not the fault of the customers. ORS supported over $170,000 annually for property taxes which is well in excess of one year's expense (= $140,880). The Commission did consider and allow out of test year amounts already for property taxes in general.

Further, as discussed in Order No. 2015-846 at 21, the Company does not pay taxes on all of its utility plant-in-service that it claims to be part of its rate base in this Docket. In at least two tax years, DIUC has reduced its total utility plant-in-service by a value very similar to (and actually exceeding) that of the disputed elevated storage tank which is located on former utility property sold at a tax sale for failure to pay property taxes. (See further discussion in Rate Base section below.) Clearly, the property tax situation with this Utility was, and still is, in great disarray. The overall ORS adjustment to property taxes was accepted by this Commission as part of the approval of the agreement between ORS and the POAs in Order No. 2015-846, because we held that it was the best analysis of the Company's property taxes available in the case. The Commission still believes that the property tax adjustment adopted in that Order was proper, and was supported by the evidence in this case, even though the Company asserts that only the full amount claimed would be appropriate. We reaffirm our findings in Order No. 2015-846 on this issue.

ii. **Management Fees**

DIUC asserts that the Commission should have approved recovery of 100% of the management fees of Guastella Associates, LLC ("GA"). The GA Management Contract with DIUC shows GA charges DIUC the following:

1. a management fee of $13,596.85 a month ($163,162 annually) with an annual 3.5% increase;
2. a finance fee of 2% of the principal amount of any loan or GA's actual total hourly rates for handling the loan, whichever is greater;
3. a capital fee of 10% for the first $50,000 of construction and 8% for construction costs over $50,000;
4. an annual incentive fee of 20% of the total net utility operating income;
5. an incentive fee if DIUC is sold;
6. rate case expenses;
7. travel expenses (all of GA's out-of-pocket traveling expenses (including without limitation, transportation, room and board) and mileage reimbursement at the then current rate).
8. expenses related to regulatory investigations and proceedings.

See Hearing Exhibit 9.

In its Application, DIUC requested that ratepayers cover $171,364 for outside management expenses. Per ORS, DIUC also included an incentive fee in its test year

management expenses. POA witness Lanier testified that this Commission should not allow DIUC to use certain expenses related to GA to justify the need for a rate increase. His reasoning is that the GA management contract expenses allow for an inflation-based increase of 3.5% per year, whereas the actual inflation rate over the last three years was less than 2.0% per year. (Lanier Direct, R. pp. 432-433). ORS recommended that GA's management fees be limited to the previous Commission-approved amount of $132,211 a year. (Gearheart Direct, R. p. 493).

ORS testified that it found no apparent increases in the scope of management services provided by GA and did not find the requested increase justified, contrary to the position taken by the Company. Id. The Company has not persuaded this Commission that the allowable amount of expense for the Company's management fees should be increased. We believe that the amount allowed in Order No. 2015-846 was proper. The ORS adjustment was a reduction of $25,439 to the Company's per books amount of $157,650. We adopted the ORS adjustment as fair and reasonable. ORS also excluded from operating and maintenance expenses the incentive fee paid to GA of 20% of net operating income included in the test year, legal expenses related to the property tax appeal and tax sale of the water tower, and other expenses not allowable for rate making purposes, all adjustments which were adopted by this Commission.

Further, although expenses of a public utility are presumed to be reasonable when incurred in good faith, the presumption does not apply to affiliate payments. When payments are made by a regulated public utility to an affiliate, mere showing of actual payment does not establish a prima facie case of reasonableness. Clearly, Daufuskie Island

Utility Company, Inc. and its management company Guastella Associates, LLC are affiliates, as per the Agreement between the two dated June 18, 2015. See Hearing Exhibit 9. (An "affiliate" is defined by Black's Law Dictionary Free Online Legal Dictionary 2nd edition as "Companies that have a shared resources, interests, or business dealings.") In addition, further evidence of affiliation between GA and DIUC is shown in the Utility's 2014 Annual Report to the Commission and ORS. John Guastella, the Managing Member of Guastella Associates, LLC, has been a member of the Board of Directors of DIUC since July 9, 2008.[1] Further evidence of Mr. Guastella's membership on the DIUC Board of Directors is found at page 227 of the Transcript of Record, wherein Mr. Guastella admitted that he was still a DIUC Board of Directors member at the time of his testimony in this case.

The payment of unexplained expenses to affiliates does not entitle a regulated water and sewer utility to a requested increase in rates and charges. The rule is that if there is an absence of data and information from which the reasonableness and propriety of the services rendered and the reasonable cost of rendering such services can be ascertained by the Commission, allowance is properly refused. Hilton Head Plantation Utilities v. The Public Service Commission of South Carolina, supra. This language from the Hilton Head Plantation Utilities case requires the PSC to review and analyze these intercompany dealings and determine if they are reasonable. Kiawah Property Owners Group v. The Public Service Commission of South Carolina, 338 S.C. 92, 525 S.E. 2d 863 (1999). Again,

[1] The Company's 2014 Annual Report on file with the Commission is deemed to be part of the Company's Application, which is part of the record of this case, pursuant to the procedures set out by the South Carolina Code of Laws. See S.C. Code Ann. Regs. 103-512.4.A15, 103-712.4.A.15 and S.C. Code Ann. Section 1-23-320 (G) (3) (Supp. 2015).

ORS found no apparent increases in the amount of management services provided by GA since the last rate proceeding, and, accordingly, recommended that no increased amount be granted in the present case, and this Commission adopted the ORS finding. Since the Company did not provide a reasonable explanation for its request for an increase in this area, the extra expense was properly denied. Our findings in Order No. 2015-846 are correct.

iii. Rate Case Expenses

With respect to rate case expenses, DIUC requested $191,200 for current and unamortized rate case expenses to be recovered over four years. (Guastella Rebuttal, R., p. 218). ORS recommended $75,000 as a reasonable recovery amount for rate case expenses in the present case, and $22,500 in unamortized rate case expenses from the previous rate case. (Gearheart Direct R. pp. 494-495). Pursuant to the GA Management Agreement (Hearing Exhibit 9), rate case expenses are charged separately by GA to DIUC and during its audit, ORS alerted DIUC to concerns related to the large amount of rate case expenses attributed to GA. Accordingly, ORS recommended the same amount of rate case expenses, $75,000, as granted in the Company's last rate order, along with $22,500 for previously unamortized rate case expenses. (Gearheart Direct R. pp. 494-495). ORS saw no justification for additional rate case expenses in the present case. Again, the rate case expenses submitted by GA were from an affiliate of the utility. The Commission agrees with ORS as to the unreasonableness of additional rate case expenses charged by GA over and above what GA was already charging the utility in a monthly management fee of over

$13,000. We adopted the ORS adjustment through adoption of the ORS-POA agreement in the present case, and nothing has persuaded us that this amount should be modified.

iv. **Bad Debt**

DIUC asks the Commission to adopt the bad debt adjustment set forth in ORS's direct testimony instead of the Settlement Agreement. The Settlement Agreement bad debt adjustment simply uses the methodology proposed by the Company in its Application (Schedule A-4) which results in a lower number than the one put forth in the ORS direct testimony. We agree with the Company that DIUC's adjustment was $16,090 with a total *pro forma* amount of $30,852. The Company's Petition makes the following statement: "There is no proof that $30,852 is realistic or anywhere close to the actual amount." (Petition at 18). If this is the case, then one must query why the Company included the amount in its Application in the first place. Company witness Guastella's explanation at the hearing seems to be that the Company came up with a conservative adjustment for its Application, but on second thought, the ORS proposed adjustment was more favorable to the Company. (Guastella, R. pp. 136-137). However, ORS later entered into an Agreement with the POAs that the Company's original adjustment in its Application was a more accurate adjustment for bad debt.

The explanation for the original DIUC bad debt adjustments under both water and sewer expenses appears in both Schedules WC-1 and SC-1and states as follows: "Adjust bad debt expense to reflect revenue write-off percentages established in prior case applied to pro forma revenue under present rates." The adjustment and percentages appear to be reasonable, and the adjustment is therefore reasonable, above and beyond the fact that the

bad debt adjustment was a product of the agreement between ORS and the POAs. Interestingly, the language belies the Company's position in its Petition that information in the prior rate case should not be used as a basis for adjustment in the present rate case. The Company did exactly that with its original Application adjustment for bad debt expense. In any event, we discern no error in adopting the bad debt expense from the Company's Application, since the Company gave a reasonable explanation for its original adjustment, and ORS and the POAs subsequently agreed with the Company. The original bad debt adjustment is clearly supported by the evidence.

a. References to the Previous Rate Case

DIUC maintains that it was error, based on Utilities Services of South Carolina v. The South Carolina Office of Regulatory Staff, Id. ("Utilities") for the Commission to "rely on" Order No. 2012-515 in Docket No. 2011-229-WS (DIUC's most recent rate case) for its reasoning in the present case (Petition at p. 13) in considering ORS's adjustments to the management fees of Guastella Associates, as well as DIUC's rate case expenses. DIUC's application of Utilities is misplaced, as this Commission did not "rely on" Order No. 2012-515 in approving ORS's adjustments, but rather used the adjustments approved by Order No. 2012-515 as a baseline for determination, and then relied on the evidence provided by ORS and the POAs to arrive at a final decision.

While Utilities does stand for the proposition that it is erroneous to use a previous rate increase as justification for denying a rate increase, Utilities, 392 S.C. 115, 708 S.E.2d 765, that case also recognizes that "a previous rate increase may provide a baseline for the PSC to use in determining whether a utility has incurred additional expenses requiring

additional revenue." Id. This Commission used the information from Docket No. 2011-229-WS as a baseline for consideration of DIUC's proposal, but used the evidence in this Docket to justify the decisions in Order No. 2015-846.

In other words, a previous rate increase is typically a "starting point" in a new rate case. Accordingly, the only way for DIUC to attempt to justify an increase in expenses (or for the ORS or the POAs to attempt to rebut a proposed increase) is to "compar[e] the expense from the test year used in the previous rate case with those from the test year in this case...." Ileater of Seabrook, Inc. v. Public Service Comm'n of S.C., 324 S.C. 56, 61, 478 S.E.2d 826, 828 (1996). Furthermore, amounts for management fees and rate case expenses in Docket No. 2011-229-WS provide the "baseline" or standard against which to compare DIUC's proposed expenses for those items in this Docket, because those fees and expenses previously were deemed reasonable by the Commission.

However, DIUC cannot satisfy its burden of proof simply by comparing the current test year expenses with those in the previous rate case. Utilities, 392 S.C. 109, 708 S.E.2d 762. Instead, when the reasonableness of proposed fees and expenses are challenged (as was the case here), "the burden remains on the utility [DIUC] to demonstrate the reasonableness of its costs." Id. And as Order No. 2015-846 makes clear (pp. 26-27), the Commission determined, based on substantial evidence in the record (including the testimony of POA witnesses), that DIUC did not satisfy that burden to demonstrate that those challenged costs were reasonable. In sum, this Commission followed the procedure contemplated by South Carolina law, and Utilities in particular, in making adjustments to

DIUC's proposed fees and expenses, and no basis to grant rehearing or reconsideration of the Order exists, based on references to the prior rate order.

v. **Rate Base Issues**

In its Petition, DIUC asserts that the elevated storage tank located on the Utility's land sold at a tax sale should be included in DIUC's rate base. ORS excluded the elevated storage tank from rate base for the following reasons:

1. The property on which the elevated storage tank sits was sold in 2011 during a delinquent tax sale and the property is no longer owned by DIUC.
2. The elevated storage tank was excluded from the last rate case, Docket No. 2011-229-WS, for the same reason in item #1 above.
3. The delinquent tax sale deed states that all "appurtenances" convey to the delinquent tax sale purchaser, Mr. Sabry. Treasurer Walls of Beaufort County was unable to opine whether or not the elevated storage tank is an appurtenance. If the elevated storage tank is an appurtenance, it would follow that the tank was conveyed to Mr. Sabry by means of the Beaufort County delinquent tax sale deed. Ms. Walls provided testimony that DIUC is paying utility taxes on the elevated storage tank to Beaufort County; however, testimony showed that while Mr. Sabry is not paying taxes on the elevated storage tank, he is paying Beaufort County taxes on a building located on the same property the County describes as a "UTLSHED."
4. DIUC has not proven it owns the elevated storage tank.

5. ORS understands DIUC is pursuing condemnation proceedings for the property and such condemnation proceedings are not within the jurisdiction of this Commission.

6. DIUC revised its Annual Reports to the Commission and ORS by lowering property values in apparent efforts to have its property taxes reduced. The values by which DIUC revised its Annual Reports appear to correspond to the value of the elevated storage tank and other property excluded for utility ratemaking purposes. ORS does not fault DIUC for revising its Annual Reports. Instead, it is ORS's position that DIUC cannot reap benefits of being the owner of the elevated storage tank for ratemaking purposes, but not the owner for property tax purposes. The Commission adopted this reasoning in Order No. 2015-846.

See Walls Rebuttal, R. pp. 101-102; Morgan Direct, R. p. 511; Morgan Surrebuttal, R. pp. 515-517; R. p. 529 and Hearing Exhibit 20.

ORS states that, if DIUC produces a deed stating that it is the owner of the property on which the elevated storage tank sits or if a court issues an order in DIUC's condemnation proceedings stating it owns the elevated storage tank, then ORS would fully support the value of the elevated storage tank being in rate base in DIUC's next rate case. (See, for example, R. p. 529.) This Commission also adopted this position. In the meantime, there is sufficient uncertainty regarding the elevated storage tank's ownership causing ORS to decline recommending that ratepayers pay DIUC a return on it, and this Commission agreed that there was a lack of substantial evidence supporting the Utility's position.

DIUC asserts that the record lacks evidence on the ORS rate base adopted by the Commission. To the contrary, ORS fully supported its recommendations in testimony and exhibits and was available for cross-examination to answer any questions on its recommendations. (See also R. p. 202, ll. 21-23; p. 203, ll. 1-5). For these reasons, this Commission adopted the ORS adjustments by way of the Agreement with the POAs in Order No. 2015-846, and this Commission continues to support them. Neither rehearing nor reconsideration is appropriate.

III. RATE OF RETURN

As a general allegation, the Company's Petition also alleged that the Commission failed to grant a reasonable rate of return in this case. The Commission approved a return on equity of 9.28%, a return on rate base of 7.44%, and an operating margin of 16.18%, based on the new rates, fees, and charges approved for the Utility, so the argument that the rates set are not sufficient to yield a reasonable return is without merit. Under ratemaking principles, the Commission fully considered the Company's long-term debt and cost of debt when determining the required return on equity. The operating experience, rate base and rate of return approved in this case are sufficient to provide adequate revenues for the Company to service its debt and provide an appropriate return to the shareholders.

This Commission only allows a utility an opportunity to earn a reasonable rate of return, and the opportunity has been presented in this case. Such a return is not, however, guaranteed. Order No. 2015-846 set rates sufficient to yield a reasonable return on the value of the property found to meet utility ratemaking standards which is used to render service to the Company's ratepayers.

IV. CONCLUSION

Based on the evidence presented in the case, the Petition for Reconsideration and/or Rehearing of Order No. 2015-846 must be denied in its entirety. Other than presenting bare assertions, DIUC failed to provide any relevant documents or other materials supporting its position on the SunTrust loan issue. Accordingly, there was nothing before the Commission that would allow it to make the determination as to whether the Company could achieve its financial requirements under that loan. Even if the materials had been submitted into the evidence, it is questionable if the outcome would have changed. Also, matters may not be presented to the Commission for the first time on reconsideration, even if a present justiciable controversy exists. Moreover, no present justiciable controversy exists in this case with regard to the SunTrust Bank loan, according to South Carolina case law.

Further, DIUC did not make any additional arguments that would support a change of our position on the five adjustments outlined in the Company's Petition. References to prior rate orders are reasonable under the law when used as a baseline for development of adjustments in present rate orders. Order No. 2015-846 set rates sufficient to yield a reasonable return on the value of the property found to meet utility rate-making standards which is used to render service to the Company's ratepayers. This Commission granted the Company an opportunity to earn a reasonable rate of return.

The information provided by the Company in its Petition with regard to the adjustments had largely been heard and rejected previously by this Commission. If proposed expenses are found to be unreasonable, as the management fees and rate case

expenses were in this case, the utility's shareholders are responsible for these expenses, not the customers. Although we are aware that we are not required to "rubberstamp" the evidence presented by the Office of Regulatory Staff, as described by the Utilities case, neither are we required to reject competent evidence presented by that agency, or from other parties. The evidence presented by ORS in the present case was competent and credible, and we reasonably accepted it on its own merits. The only adjustment accepted by us as part of the Settlement Agreement that was not an ORS adjustment was the Company's original bad debt adjustment. The Company provided support for the original adjustment in its Application, separate and apart from its testimony and the Settlement Agreement between ORS and the POAs. For all of these reasons, we must deny the Petition brought by DIUC.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Nikiya Hall, Chairman

ATTEST:

Swain E. Whitfield, Vice Chairman

(SEAL)

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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-346-WS

IN RE:)	
)	APPLICANT'S PROPOSAL
Application of Daufuskie Island Utility)	FOR PROCEDURE
Company, Inc. for Approval of an)	FOLLOWING REMAND
Adjustment for Water and Sewer Rates,)	AND EXPEDITED HEARING
Terms and Conditions.)	
)	

I. INTRODUCTION

On July 26, 2017, the South Carolina Supreme Court issued its Order reversing and remanding this case to the Commission for rehearing. The Applicant ("DIUC") hereby proposes the following as a guide to the Commission for establishing a procedure and scope of rehearing sufficient to address DIUC's Application for Approval of Adjustment in Rates in light of the Supreme Court's ruling.

II. THERE ARE LIMITED ISSUES FOR REHEARING.

On appeal, DIUC asked the Supreme Court to consider Order 2015-846's adoption of the ORS-Intervenors Settlement Agreement and other evidentiary rulings by the Commission. DIUC also appealed Order 2015-846's ruling upon five adjustments that were included in the Settlement Agreement between ORS and the Intervenors. By adopting the adjustments, Order 2015-846 rejected revenue calculations requested by DIUC and, instead, approved the Settlement Agreement's lower adjusted amounts thereby reducing the total rate increase available to the Applicant.

In its Opinion, the Supreme Court ruled Order 2015-846 "contained multiple adjustments which were entirely unsupported by the evidence presented to the Commission." Op. at 7. Accordingly, the Court reversed and remanded the matter "for a new hearing as to all issues." *Id.* The issues referred to by the Court are Order 2015-846's adjustments to:

- Property Taxes
- Plant In Service
- Bad Debts
- Management Fees
- Rate Case Expenses

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These five adjustments define the parameters of what is to be addressed by the Commission on remand.

Although the Supreme Court did not individually analyze two of the five adjustments, the Court did explicitly address three adjustments "in order to provide guidance to the Commission on remand." Op. at 7-8. Those adjustments were to Property Taxes, Plant In Service, and Bad Debts.

A. The Supreme Court Ruled on Property Taxes.

Based upon the evidence already in the record before the Commission, the Supreme Court ruled that DIUC must be allowed to collect revenue sufficient to pay the Property Taxes and Utility Taxes requested in the Application. No additional testimony or discovery on this issue is necessary, except to summarize for the Commission the amounts to be included under the Supreme Court's ruling.

B. The Supreme Court Ruled Plant In Service Must Include the Facilities at the Elevated Tank Site.

The Supreme Court ruled the Elevated Tank Site should be included in rate base. The Court instructed:

> DIUC owns the utility equipment located on the Elevated Tank Site, and is therefore entitled to include the value of this property in its rate base. On remand when the Commission recalculates DIUC's rate base, it should take into account its ownership of the water tank, well, pipes, and other utility equipment located on the Elevated Tank Site.

Op. at 9. No additional testimony or discovery on the Elevated Tank Site and associated equipment is necessary, except to summarize for the Commission the amounts to be included under the Supreme Court's ruling that the Elevated Tank Site and associated equipment must be included in calculating Plaint in Service.

Beyond its holding as to the Elevated Tank Site, the Supreme Court did not specifically address that Order 2015-846's adoption of ORS's downward adjustment of Plant In Service included more than just the value of the Elevated Tank Site; the adjustment also reflects "capital improvements, non-allowable plant, adjustments from the previous case not made by DIUC and retirements through July 31, 2015." Hearing Tr. at 496 However, ORS (and therefore Order 2015-846) never explained what amount was included for the Elevated Tank Site versus these

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other items. DIUC intends to present limited prefiled testimony addressing this issue, which was also the subject of ample testimony by DIUC in the initial proceeding.

C. Bad Debts Were Specifically Addressed by the Supreme Court.

In addressing Order 2015-846's allowance of $30,852 for Bad Debt Expense, the Court ruled "all the testimony and exhibits presented by DIUC and ORS show DIUC had been unable to collect well over $100,000 in bad debt." Op. at 11. DIUC intends to present limited prefiled testimony supporting its calculation of bad debt expense, including the percentage calculation for additional bad debt expense based upon the increase in rates to be implemented pursuant to the Supreme Court's ruling and following rehearing by the Commission.

D. Management Fees and Rate Case Expenses

At the initial hearing, DIUC quantified its management fees to date and requested the same. In order to include an amount for rate case expenses in the Application, DIUC estimated its rate case expenses for the instant case. After lengthy discovery, a full hearing, post-trial motions, an appeal, and now rehearing, that amount has increased substantially. As part of these rate case expense, DIUC has also incurred additional management fees for its manager's coordination of these efforts. Therefore, DIUC's rate case expenses will need to be supplemented by prefiled testimony. Specifically, the actual cost to complete the rate case, costs for appeals, and the cost of bonds will be submitted for the Commission to include in its calculation of rates.

The total management fees addressed in the Application and previously presented by DIUC in its testimony remains the same and is the amount DIUC sought under the pending Application. DIUC will present limited prefiled testimony supporting its calculation of management fees. Since the total amount for management fees was already explored fully in this case, additional prefiled testimony will be very limited.

III. NO ADDITIONAL DISCOVERY IS WARRANTED.

DIUC does not require and the other parties are not entitled to any additional discovery for the matters to be addressed on remand. While it is true the Supreme Court ruled the parties are not limited solely to the evidence previously presented, the Court did not open the door to lengthy and expensive discovery. DIUC has already responded to in excess of 150 individual discovery requests and the issues to be addressed on rehearing, *see supra*, do not warrant opening the door

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to discovery. If the parties have questions as to the additional rate case expenses to be presented, DIUC will make a witness available at the hearing for cross examination.

IV. Cost and Hardship on the Applicant Must be Prevented.

DIUC has been required to expend considerable funds appealing Order 2015-846 and the only way it survived was by collecting the Application's requested rates pursuant to bond. However, those bonds have already cost DIUC in excess of $58,000 for premiums plus over $7,000 in associated bank charges. That is an actual, direct cost to DIUC of over $65,000. Additionally, the current bonds will expire December 31, 2017, and may not be renewable. Because the rates currently allowed by Order 2015-846 do not account for the known and real costs of DIUC's operation, DIUC will not be able to cover out of pocket costs unless it has the right to collect adequate revenue. It cannot do that without another bond, and since obtaining another bond is not a guarantee, the Applicant requires a decision before the end of the bond terms.

V. Proposed Schedule

In order to move the case forward and to protect its ability to continue providing essential services to the residents of Daufuskie Island, DIUC proposes the following schedule:

October 13, 2017	Applicant Prefiled Testimony Due
October 27, 2017	Rebuttal Testimony Due
November 3, 2017	Surrebuttal Testimony Due
November 6, 2017	Hearing

VI. Conclusion

The issues to be addressed on remand are limited in scope and can be addressed efficiently under the proposed schedule. Additionally, as discussed at length at the initial hearing, the DIUC system requires extensive improvements and refinancing to fund those improvements cannot be accomplished until this matter is concluded. The situation is dire for DIUC. If this matter is allowed to extend into 2018, the utility may not be able to cover its operating costs resulting in a default on its debts. The Applicant requests the Commission implement a schedule that will result in an order of the Commission prior to the end of 2017.

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Respectfully submitted,

/s/ Thomas P. Gressette, Jr.
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October 4, 2017
Charleston, South Carolina

CERTIFICATE OF SERVICE

This is to certify that on October 4, 2017, I caused to be served upon the counsel of record named below a copy of the foregoing APPLICANT'S PROPOSAL FOR PROCEDURE FOLLOWING REMAND AND EXPEDITED HEARING, by electronic mail, as indicated.

Standing Hearing Officer David Butler at David.Butler@psc.sc.gov
Shannon Boyer Hudson, Esq. at shudson@regstaff.sc.gov
Andrew M. Bateman, Esq. at abateman@regstaff.sc.gov
Jeff Hayes, Esq. at jhayes@regstaff.sc.gov
John J. Pringle, Esq. at jack.pringle@arlaw.com

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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-346-WS

IN RE:	
Application of Daufuskie Island Utility Company, Inc. for Approval of an Adjustment for Water and Sewer Rates, Terms and Conditions.	**MOTION TO RECONSIDER DIRECTIVE 2017-59-H AND DIRECTIVE 2017-60-H WITH AFFIDAVIT OF JOHN F. GUASTELLA**

SUMMARY

In addition to the scope of proceedings on remand, the two issues discussed by the parties and the Standing Hearing Officer prior to issuance of Directives 2017-59-H and 2017-60-H were DIUC's request for expedited hearing and whether the Office of Regulatory Staff ("ORS") and the Intervenors ("Intervenors" or "POAs") should be permitted additional discovery prior to rehearing.[1]

The purpose of this Motion with attached and incorporated Affidavit of John F. Guastella is two-fold. First, the Motion and Affidavit make clear the necessity of modifying Order 2017-59's schedule so that this case is resolved prior to December 31, 2017. Second, the Motion explains that DIUC intends to serve its prefiled testimony on Wednesday, October 18th, and asks that the parties review the testimony and allow the Standing Hearing Officer to determine based upon that testimony whether there is any actual need for additional discovery prior to rehearing.

[1] Standing Hearing Officer Butler issued Directive 2017-59-H on October 10, 2017, then supplemented the same with a clarification in Directive 2017-60-H on October 11, 2017. For purposes of this Motion both Directives are referred to collectively as "Directive 2017-59-H" or "Order 2017-59-H".

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DISCUSSION

Following the South Carolina Supreme Court's Order reversing and remanding this case to the Commission for rehearing, on October 4, 2017, the Applicant ("DIUC") requested an expedited hearing schedule be entered so that the matter could be concluded prior to December 31, 2017. See Applicant's Proposal for Procedure Following Remand and Expedited Hearing. The grounds for the request were:

1. The Supreme Court's decision addressed Order 2015-846's adjustments to five revenue items: Property Taxes, Plant In Service, Bad Debts, Management Fees, and Rate Case Expenses.

2. The Supreme Court's decision specifically addressed three of these five adjustments. The Court ruled that Order 2015-846's adjustments to DIUC's revenue request as to Property Taxes, Plant In Service, and Bad Debts were in error. Accordingly, the scope of the rehearing is narrow. Expedited scheduling is proper and efficient for the issues to be decided by the Commission.

3. Time is of the essence for a remand hearing and order because DIUC is collecting its requested rates pursuant to bonds. The terms of the current bonds were jointly agreed upon by DIUC and the POAs then approved by the Commission. However, the bonds expire on December 31, 2017. The Proposal explained it would be likely impossible, for DIUC to obtain additional bonds for any time period after December 31, 2017.

4. Even if bonds could be obtained for time periods beyond December 31, 2017, DIUC has already spent over $58,000 for bonds and further bond costs to the ratepayers would be avoided by concluding this matter before December 31, 2017.

5. The issues for rehearing are narrow and the delay of discovery is not warranted.

After hearing from the parties via conference call as to DIUC's Proposal, Standing Hearing Officer Butler issued Order No. 2017-59-H which denied DIUC's request for an expedited hearing. Order 2017-59-H states:

> DIUC's counsel stated a preference for the pre-filing of testimony, hearing, and issuance of an Order in this case before the end of 2017, based on the questionable ability of the Company to obtain a continuing appeal bond during the pendency of the remand, and also the expense of said bond. However, the Company's counsel

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> had not obtained any specific information on availability or expense. Accordingly, this Standing Hearing Officer has no specific information to rely on in justifying the promulgation of an expedited schedule.

Order at 2 (emphasis added).

The Attached Affidavit of John F. Guastella Provides Specific Evidence of the Necessity for Expedited Hearing.

In seeking reconsideration of Order 2017-59-H and to provide specific information upon which the Hearing Office can rely to issue an expedited hearing schedule, DIUC hereby submits the Affidavit of John F. Guastella. Mr. Guastella is the President of Guastella Associates, LLC, which is the manager of DIUC. As evidenced by the Affidavit, the surety company is not willing to provide another bond. See Guastella Affidavit. In an attempt to obtain bonds, Mr. Guastella contacted Danny Sellers of Insurance Office of America to request a pre-determination of availability of bonds for any post-December 31, 2017, time period. Mr. Sellers arranged for all the previous bonds for DIUC in this matter; however, he responded flatly that there would be no additional bonds issued in this case. See Attachment A to Guastella Affidavit ("Our last effort on this was the maximum allowed from the Surety. Sorry we could not be of help.")

In addition to the bonding company's refusal to participate in any additional bond(s) post-December 31, 2017, the prerequisites to obtaining the most recent bonds included substantial financial information, actions, and financial commitments from individuals and entities beyond the control of DIUC. As explained by the Affidavit of Mr. Guastella, those additional funds are no longer available for DIUC's use after December 31, 2017. Also, SunTrust has indicated it will not extend any further credit to DIUC until after this rate case concludes. See Attachment B to Guastella Affidavit. So, DIUC cannot provide the security that was originally required for the issuance of the bonds. That does not begin to address the additional bonds that would be necessary to cover rates collected after December 31, 2017. In sum, as the sworn testimony of Mr. Gusatella's Affidavit states, "DIUC is not

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able to renew its existing bonds or obtain additional bonds for rates charged after December 31, 2017. This fact is demonstrated DIUC's recent efforts and my experience in attempting to secure previous bonds."

The Scope of DIUC's Prefiled Testimony Will Demonstrate No Discovery Is Necessary.

In Order 2017-59-H, Standing Hearing Officer Butler found that "the 'de novo' terminology [in the Supreme Court decision] clearly means that the Court intended that the Commission hold a new hearing on all issues in the case." The Order did not agree with the reading of the Supreme Court decision set forth in DIUIC's Proposal for Procedure Following Remand and Expedited Hearing. DIUC asserted the "five adjustments addressed by the Supreme Court define the parameters of what is to be addressed by the Commission on remand." Proposal at 2. DIUC's Proposal asserted no further discovery was warranted or permitted. Id. at 3-4. Order No. 2017-59-H went on to address discovery stating, "since the Commission will hold a new hearing on all such issues, the Commission's discovery rules are clearly applicable."

In response to Order 2017-59-H, ORS has indicated that the prefiled testimony of DIUC will determine whether it needs to pursue any discovery. See Order 2017-60-H referring to email of Andrew Bateman dated October 10, 2017 ("ORS does not intend to argue issues on which the Supreme Court gave guidance. Further, regarding the utilization of discovery, any discovery required by ORS will depend upon the filings to be made by DIUC.")

To assist ORS and the Hearing Officer in understanding whether any discovery is necessary, DIUC intends to serve its prefiled testimony on Wednesday, October 18th. The Hearing Officer has scheduled a telephone conference among the parties for October 20th, at which time the issue of any actual need for discovery in response to the Applicant's filings can be considered.

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DIUC continues to assert the position expressed in its Proposal for Procedure Following Remand and Expedited Hearing regarding why ORS and the POAs are not entitled to additional discovery prior to rehearing. See Proposal at 3 ("While it is true the Supreme Court ruled the parties are not limited solely to the evidence previously presented, the Court did not open the door to lengthy and expensive discovery."). As explained in DIUC's Proposal and during the Hearing Officer's call with counsel, DIUC has already responded to in excess of 150 individual discovery requests and the issues to be addressed on rehearing do not warrant opening the door to discovery. DIUC is hopeful that its rush to submit its prefiled testimony will dispel any concern that discovery is warranted.

CONCLUSION

The inability to obtain additional bonds after December 31, 2017, necessitates an expedited hearing schedule, as evidenced by the Affidavit of John F. Guastella submitted in response to Order 2017-59-H. By serving its prefiled testimony early, DIUC will further demonstrate expedited scheduling is appropriate because the scope of DIUC's presentation for rehearing is narrow and discovery is not warranted.

WHEREFORE, DIUC requests the Standing Hearing Officer reconsider Order 2017-59-H's allowance of further discovery in this matter and enter an expedited schedule as follows:

October 20, 2017	Applicant Prefiled Testimony Due;
November 3, 2017	Rebuttal Testimony Due;
November 10, 2017	Surrebuttal Testimony Due;
November 20, 2017	Hearing.

FURTHERMORE, IN THE ALTERNATIVE, should the Standing Hearing Officer permit additional discovery, DIUC requests the same be established within the expedited schedule herein requested.

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Respectfully submitted,

/s/ Thomas P. Gressette, Jr.

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October 16, 2017
Charleston, South Carolina

CERTIFICATE OF SERVICE

This is to certify that on October 16, 2017, I caused to be served upon the counsel of record named below a copy of the foregoing DIUC Motion to Reconsider Directive 2017-59-H and Directive 2017-60-H With Affidavit of John F. Guastella, by electronic mail, as indicated.

Standing Hearing Officer David Butler at David.Butler@psc.sc.gov
Shannon Boyer Hudson, Esq. at shudson@regstaff.sc.gov
Andrew M. Bateman, Esq. at abateman@regstaff.sc.gov
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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-346-WS

IN RE:	)	
	)	
Application of Daufuskie Island Utility	)	
Company, Inc. for Approval of an	)	AFFIDAVIT OF
Adjustment for Water and Sewer Rates,	)	JOHN F. GUASTELLA
Terms and Conditions.	)	
	)	
	)	

Personally appeared before me John F. Guastella, who being duly sworn, testifies as follows:

My name is John F. Guastella.

I offer this Affidavit as testimony, under oath and under penalty of perjury, stating and affirming that I have personal knowledge of the facts set forth herein, that I am competent to testify to the matters set forth herein, and that all statements included herein are truthful and accurate.

I am President of Guastella Associates, LLC ("Guastella").

Guastella is the manager of Daufuskie Island Utility Company, Inc. ("DIUC").

Guastella has been the manager of DIUC since July 9, 2008. I have served as the President of Guastella throughout this period and I have been personally involved the day-to-day operations as well as the management activities and decisions of DIUC.

In addition to my work with DIUC, I provide consulting service to utilities around the country with respect to rate setting, valuation and appraisals, and utility management. In my career I have worked with utilities in some 30 states and have been qualified to testify as an expert in 23 states.

As President of Guastella, the manager of DIUC, I am the custodian of the records of DIUC. The documents attached to this Affidavit are business records kept in the course of DIUC's regularly conducted business activity, and each is maintained in the regular practice of the business of DIUC. Each document attached hereto is the original or an exact duplicate of the original.

DIUC is a "public utility" under the terms of S.C. Code Ann. §58-5-10(4), and is subject to the regulatory jurisdiction of the Public Service Commission of South Carolina ("PSC").

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DIUC is authorized by the Public Service Commission of South Carolina to be the exclusive provider of water and wastewater services to a service area that encompasses Daufuskie Island, South Carolina.

The rates and amounts DIUC charges its customers are regulated by and subject to the approval of the Public Service Commission of South Carolina ("the Commission").

On June 9, 2015, DIUC applied for approval of a new schedule of rates and charges for water and sewer service ("the Application").

On October 28, 2015, the Commission conducted its hearing on DIUC's Application.

On December 8, 2015, the Commission entered its decision, docketed as Order No. 2015-846, ruling on DIUC's application. Order 2015-846 rejected revenue calculations requested by DIUC and, instead, approved significantly lower rates under which DIUIC could not continue operations. In round numbers, DIUC applied for a 108% increase and Order 2015-846 only allowed a 43% increase in DIUC's rates.

DIUC appealed the Order and implemented its proposed rates pursuant to a bond approved by the Commission in accordance with S.C. Code § 58-2-240(D).

The term of the first bond was from July 1, 2016 to June 30, 2017. Because the Supreme Court appeal was still pending, the existing bond was renewed to continue in effect for an additional period of six months to expire on January 1, 2018. An additional surety bond was obtained for rates collected during six months beginning on July 1, 2017 and expiring on December 31, 2017. The premiums and banking charges paid by DIUC for these bonds total in excess of $60,000.

In July of 2017, DIUC was unable to obtain bond renewals and additional bonds on its own. The bonding company ultimately agreed to issue the bonds if SunTrust Bank provided a letter of credit (LOC) for the last bonds. SunTrust would not provide the LOC until DIUC was able to convince one if its owners to personally secure the SunTrust letter with the transfer of certain deposits.

Pursuant to Order No. 2017-59-H recently issued in this case, the schedule for rehearing and conclusion of this case will extend into 2018. Under this schedule, DIUC will need another extension of the existing bonds, which are now at a total of $1,203,595 and which expire on December 31, 2017. DIUC would have to have in place a renewal of the $1,203,595 plus another $430,042 for the next six months, resulting in a total bonded amount of $1,633,637, including interest.

The personal funds used to secure the SunTrust LOC will no longer be available after December 31, 2017, when the current bonds expire. Without that LOC and due to the fact that the amount at issue will increase even more from $1,203,595 to $1,633,637, I cannot foresee any way that DIUC can obtain bonds after December 31, 2017.

I have specifically attempted to obtain bonds by contacting Danny Sellers of Insurance Office of America. Mr. Sellers assisted with all the previous bonds required for this case and was the only agent who was able to successfully obtain the bonds for DIUC.

Via email dated October 13, 2017, I inquired whether Mr. Sellers "could obtain a bond or bonds for the extension and additional amount totaling the $1,633,637, and if [he] could, would another letter of credit be required." See Attachment A.

A telephone conversation with Mr. Sellers on October 13, 2017, and exchange of emails confirms that he cannot secure issuance of another bond for DIUC. As Mr. Sellers explained, the previous bond amount "was the maximum allowed from the Surety." See Attachment A.

When DIUC obtained the most recent bonds, a letter of credit ("LOC") was also required. Anticipating this need, I contacted Carol Coppola, Vice President of SunTrust, to discuss the possibility of providing another LOC. See Attachment B. As indicated by Ms. Coppola's response, SunTrust is not willing to issue any additional credit to DIUC until the current rate case is resolved. Id.

DIUC is not able to renew its existing bonds or obtain additional bonds for rates charged after December 31, 2017. This fact is demonstrated DIUC's recent efforts and my experience in attempting to secure previous bonds.

Because of the impossibility of obtaining bonds and the threat to DIUC if it not allowed to collect rates greater than those allowed by Order 2015-846, DIUC requires this matter be set for hearing as soon as possible so that a decision could be issued by the Commission prior to December 31, 2017.

Further Affiant sayeth not.

[Signature Page to Follow.]

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John F. Guastella

10/16/17
Date

Palm Beach FL
County and State

John F. Guastella did personally appear before me,
was duly sworn under oath and under penalty of perjury,
and did execute this Affidavit in my presence.

SWORN before me this 16th day of October, 2017.

Notary Public for the State of Florida

My Commission Expires: 07-30-2021

Notary Public State of Florida
Edward Ezzard
My Commission GG 129613
Expires 07/30/2021

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From: Danny Sellers (ATL) [mailto:Danny.Sellers@ioausa.com]
Sent: Friday, October 13, 2017 5:01 PM
To: John Guastella <jfg@guastella.com>
Subject: RE: Daufuskie Island Utility Company - Bond Extension and Additional Bond
Importance: High

John,

Thanks for the request.

Our last effort on this was the maximum allowed from the Surety.

Sorry we could not be of help,

Danny Sellers | *Vice President*
Direct: (770)250-0220
Cell: (770)710-3404
IOA
INSURANCE OFFICE OF AMERICA
100 Galleria Parkway, Suite 600
Atlanta, GA 30339

From: John Guastella [mailto:jfg@guastella.com]
Sent: Friday, October 13, 2017 3:51 PM
To: Danny Sellers (ATL) <Danny.Sellers@ioausa.com>
Cc: tlee@terryleecontracting.com; Mike Guastella <mjg@guastella.com>; Tom P. Gressette Jr. Esq. <gressette@wgfllaw.com>
Subject: Daufuskie Island Utility Company - Bond Extension and Additional Bond

Hello Danny,

Although the S.C. Supreme Court has provided DIUC with a very favorable decision in its appeal of

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the Public Service Commission's rate order, in order to complete the rate case it required the Commission to conduct a rehearing. The scheduling of the rehearing and conclusion of the case for a final rate increase will extend into 2018. Under this timing, DIUC will need another extension of the existing bonds which are now at a total of $1,203,595 and which expire on December 31, 2017. You will recall that for the last extension the bond company required a letter of credit in the amount of $650,000. In order to again assure refunds to the customers in compliance with applicable law, effective January 1, 2018 DIUC would have to have in place a renewal of the $1,203,595 plus another $430,042 for the next six months, a total of $1,633,637 including interest.

Would you please let me know whether you could obtain a bond or bonds for the extension and additional amount totaling the $1,633,637, and if you could, would another letter of credit be required. I should advise you that although SunTrust Bank provided a letter of credit for the last bonds, it only did so with a personal commitment of one of DIUC's owners, and that personal commitment is no longer available. If you are unable to obtain the extension and additional bond amounts, I would request that the PSC provide alternative rate setting treatment. But I must also report to the PSC if bonds are again available.

We are pressed for time and I would ask that you respond ASAP. I very much appreciate your effort.

Thanks,
John

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From: Coppola.Carol [mailto:Carol.Coppola@SunTrust.com]
Sent: Monday, October 16, 2017 11:26 AM
To: John Guastella <jfg@guastella.com>
Cc: Kutcher.Emily.A <Emily.A.Kutcher@SunTrust.com>
Subject: RE: DIUC - Another LOC

John, we really need an answer on the outstanding billing rates from the commission before we extend any additional credit to Daufuskie Island Water Co. It is difficult to complete our files without the outstanding uncertainties.

Carol Coppola | FVP, Commercial Banking | SunTrust Bank, Savannah Region | 33 Bull Street Savannah, GA 31401 | Office: 912-944-1196 | Cell: 912-308-4377 | Fax: 912-238-1135|

From: John Guastella [mailto:jfg@guastella.com]
Sent: Friday, October 13, 2017 1:14 PM
To: Coppola.Carol
Cc: Kutcher.Emily.A
Subject: DIUC - Another LOC

Hi Carol,

The PSC will conduct a rehearing in response to the Supreme Court's decision rejecting the PSC's 43% rate increase order. Early indications are that the revised rate increase will significantly exceed 84% as compared to the 43% allowed in the PSC's original order. That rehearing and PSC decision, however, will not be completed until after January 1, 2018 so that we would again bill at the 108.9% original rate increase on January 1st, and again be subject to refund as well as extending the existing bonds ($1,203,595) and adding another $430,042 bond to cover the first quarter of 2018.

You recall that the bond company required a letter of credit in order to renew and add to the previous bonding, for which SunTrust provided a $650,000 LOC, a little more than half of the total amount of the bond renewals. As I recall, SunTrust only provided the LOC because of Terry Lee's assistance, but would not do so on the strength of DIUC's own rate and financial circumstances. The renewal and additional bonds for the first quarter of 2018 will be $1,623,637 which would likely require about an $850,000 LOC, if the bond company would renew the bond at all. Assuming the bond company will renew the bonds again, would SunTrust be willing to provide a LOC without Terry Lee's assistance?

I am working on a plan to expedite the PSC's process an avoid the need for a bond renewal, but that effort would include whether DIUC can obtain a bond renewal. So, am taking the liberty of asking

for your response ASAP.

Thanks,
John

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[ST:XCL]

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C. DUKES SCOTT
EXECUTIVE DIRECTOR

1401 Main Street, Suite 900
Columbia, SC 29201

NANETTE S. EDWARDS
DEPUTY EXECUTIVE DIRECTOR

Phone: (803) 737-0800
www.regstaff.sc.gov

jnelson@regstaff.sc.gov

Jeffrey M. Nelson
Chief Counsel & Director of Legal Services

November 20, 2017

VIA ELECTRONIC FILING

Jocelyn G. Boyd, Esquire
Chief Clerk & Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Service of Discovery
Docket No. 2014-346-WS

Dear Ms. Boyd:

ORS strenuously objects to the timeline which counsel has attempted to impose on ORS for responses to the recently submitted discovery requests.

Under the provisions of Reg. 103-833 of the S.C. Code Ann. Regs., Parties are provided with twenty (20) days to respond to written interrogatories and requests for production of documents.

The expedited schedule in this case which Mr. Gressette refers to is a timeline which DIU requested, not ORS or the other Intervenors. ORS should not be forced to respond to an absurdly short discovery schedule which is the result of the Applicants own request to expedite the schedule in this case.

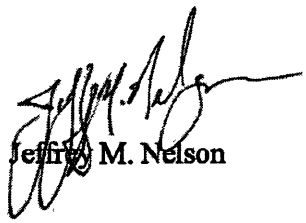
Additionally, both Thursday November 23rd and Friday November 24th are State Holidays and the Office of Regulatory Staff is closed. The Applicant is thus essentially requesting ORS to prepare responses to extensive discovery requests in just three working days. This is impossible. The ORS staff is also currently working on two other large water/sewer rate cases as well as numerous issues involving the VC Summer nuclear project.

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ORS will begin to prepare appropriate responses to the discovery requests but will be unable to provide responses on the day after Thanksgiving.

ORS asks that the Commission, or hearing officer in this matter, issue an Order providing that ORS is relieved from having to reply to the Applicants recently filed Discovery requests. Alternatively, we would ask that the Commission issue an Order providing a more reasonable timeline for ORS to reply to the Applicants discovery requests.

Sincerely,



Jeffrey M. Nelson

cc:

David Butler, Esquire (via E-Mail)
Thomas P. Gressette Jr., Esquire (via E-Mail)
John J. Pringle, Esquire (via E-Mail)
John F. Beach, Esquire (via E-Mail)
G. Trenholm Walker, Esquire (via E-Mail)
Vicki Volponi, Esquire (via E-Mail)
John F. Guastella, Esquire (via E-Mail)

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WALKER GRESSETTE FREEMAN LINTON LLC

G. Trenholm Walker
Thomas P. Gressette, Jr.
Ian W. Freeman
John P. Linton, Jr.
Charles P. Summerall, IV

THOMAS P. GRESSETTE, JR.
Direct: 843.727.2249
Email: Gressette@WGFLLAW.com

November 20, 2017

VIA ELECTORNIC FILING
Jocelyn G. Boyd, Esquire
Chief Clerk & Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

RE: Daufuskie Island Utility Company, Inc. Rate Application
PSC Docket No. 2014-346-WS
Response to Correspondence from Mr. Nelson dated November 20, 2017

Dear Ms. Boyd:

I write in response to Mr. Nelson's letter asserting the discovery served by DIUC this morning. Mr. Hayes asserts the requested response deadline of November 24, 2017, is too short. Due to the extenuating circumstances in this case that required an expedited hearing schedule, the discovery response date requested is necessary. It is also consistent with the response dates recently requested by ORS in this matter.

On Tuesday, October 24th at 2:15pm, ORS served DIUC with Audit Information Requests and required responses three business days later by Friday, October 27th. The discovery at issue form IDUC to ORS requests a response from ORS within a similar period. DIUC's rebuttal testimony is due on Tuesday, so there is just no way to allow for the usual 20 days available for a response. The four-day response deadline is consistent with the three-day response deadline for DIUC to respond to recent discovery from ORS and is necessary for DIUC to have the requested information in order to respond to recently submitted testimony of the five witnesses for ORS and Intervenors.

Mr. Nelson asserts that DIUC requested this expedited schedule, as if DIUC has gained some benefit from the hurried pace of this proceeding. While DIUC did request the expedited hearing schedule, the emergent circumstances justifying the schedule were created by the lengthy appeal and by the POAs' concerns about the bonds, both of which make a decision before the end of the year necessary. The schedule did not provide a benefit to DIUC; the utility is operating under the same types of pressure to meet the schedule.

The discovery seeks information that forms the basis of the recently served ORS testimony. In that testimony ORS seeks to exclude $542,978 of DIUC's rate case expenses because "in general" the invoices are insufficient. Several potential reasons for exclusion are provided, but no specifics. Additionally, ORS has for the first time in this case asserted DIUC should be compared to at least 15 other utilities about which DIUC has no information.

DIUC's discovery is focused on these new matters raised by the ORS witnesses. We did try to find ways to relieve any potential burdens. For example, rather than ask ORS a lot of questions about how ORS arrived at its positions on depreciation, DIUC requested the Xcel document and planned to try to recreate the analysis based on that document. I wasn't trying to be difficult and tried to keep the discovery focused. This is just the information DIUC needs to understand ORS's positions and then to prepare rebuttal testimony.

Thank you for allowing me to briefly respond to the concerns raised by Mr. Nelson's letter. I am available should you require any additional information and have copied Standing Hearing Office Butler so that he will be aware of this communication.

Sincerely,

/s/
Thomas P. Gressette, Jr.

Enclosures

Copies To:
Standing Hearing Office David Butler (David.Butler@psc.sc.gov)

Andrew M. Bateman, Esq. (abateman@regstaff.sc.gov)
Jeff Nelson, Esq. (jnelson@regstaff.sc.gov)
South Carolina Office of Regulatory Staff

John J. Pringle, Jr., Esq. (jack.pringle@arlaw.com)
John F. Beach, Esq. (john.beach@arlaw.com)
Adams & Reese, LLP

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BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2014-346-WS – ORDER NO. 2017-_____

DECEMBER ____, 2017

IN RE:	)	
Application of Daufuskie Island Utility Company, Inc.	)	APPLICANT'S
For Approval of a New Schedule of Rates and	)	PROPOSED ORDER
Charges for Water and Sewer Service	)	ON REMAND
	)	

PROCEDURAL HISTORY

The Rate Application

This matter is before the Public Service Commission of South Carolina (the "Commission") on the Application ("Application") of Daufuskie Island Utility Company, Incorporated ("DIUC" or "the Company") filed on June 9, 2015, seeking approval of a new schedule of rates and charges for water and sewer service that DIUC provides to customers within its authorized service area in South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A.

In its Application, DIUC requested an increase in revenues for combined operations of $1,182,301, consisting of a water revenue increase of $590,454 and a sewer revenue increase of $591,847. The revenue increase utilizes a return on equity ("ROE") of 10.5% based on the rate of return on rate base methodology and a 2014 historical test year. Tariff changes to bring the rates between the Haig Point and Melrose communities to uniformity were also requested.

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DIUC's last rate case before this Commission was in Docket No. 2011-229-WS. In that case, Commission Order No. 2012-515 approved a settlement entered into by the Haig Point Club and Community Association, Inc. ("HPCCA"); Melrose Property Owner's Association, Inc. ("MPOA"); Bloody Point Property Owner's Association ("BPPOA") (collectively the "POAs"); and DIUC that was not objected to by the South Carolina Office of Regulatory Staff ("ORS"). Pursuant to the settlement, DIUC received a revenue increase of $291,485 based on a $5,000,000 rate base; an operating margin of 16.64%; and an ROE of 8.81%. DIUC also agreed not to seek another rate adjustment prior to July 1, 2014.

DIUC's South Carolina operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class B water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending December 31, 2014. The Commission's approved service area for DIUC is on Daufuskie Island located in Beaufort County, South Carolina.

The Commission's Clerk's Office instructed DIUC to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by DIUC's Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. The Commission also instructed DIUC to notify each affected customer by mailing or, where the customer had previously agreed to electronic notice, by emailing each customer a copy of the Notice of Filing. DIUC filed Affidavits of Publication and Mailing demonstrating that the Notice of Filing had been duly published and provided to all customers.

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Petitions to Intervene were filed on behalf of the POAs on July 23, 2015, and Beach Field Properties, LLC ("Beach Field") on July 27, 2015.

Subsequent to their intervention, the POAs requested that the Commission schedule a public night hearing at a convenient time and location for customers of DIUC to present their comments regarding the service and rates of DIUC. In response, the Commission held a public night hearing pursuant to Order No. 2015-586. Under this Order, a public hearing was set and noticed by the Commission, and the Company provided an affidavit certifying that it had provided notice of the date, time and location of the local public hearing via publication in The Beaufort Gazette and The Island Packet. On September 15, 2015, the Commission held a night hearing beginning at 6:00 pm at the Haig Point Club Clubhouse, 130 Clubhouse Lane, Daufuskie Island, South Carolina.

The Hearing

On October 28, 2015, the Commission, with Chairman Nikiya Hall presiding, heard the matter of DIUC's Application beginning at 10:30 am in the Commission Hearing Room located at 101 Executive Center Drive in Columbia, South Carolina. DIUC was represented by G. Trenholm Walker, Esquire, and Thomas P. Gressette, Jr., Esquire. The POAs were represented by John J. Pringle, Jr., Esquire. Beach Field was represented by Margaret M. Fox, Esquire. ORS was represented by Shannon Bowyer Hudson, Esquire, and Andrew M. Bateman, Esquire.

After the hearing was called to order by Chairman Hall, Mr. Pringle asked to present a "preliminary matter" at which time he informed the Commission that the Intervenors and ORS had filed with the Commission a "settlement agreement." Hearing Transcript at 40. Pursuant to the purported "settlement agreement," ORS and the Intervenors agreed to stipulate to "all of the adjustments made by the ORS, with the exception that the ORS amended its bad debt allowance

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to utilize the allowance proposed by Daufuskie Island Utility Company, Inc. (the "Company") in its Application. No other changes were made by ORS in reaching the Settlement." *See* Transcript at 41-42.

DIUC objected to the purported "settlement agreement" asserting that the Commission should not consider it, take notice of it, or incorporate it into the record. *See* Transcript at 42-44. DIUC objected on the grounds that the "settlement agreement" endorsed an even lower revenue number than originally proposed by ORS, that any agreement between ORS and Intervenors is irrelevant to the Application since the Company did not agree to the terms of the purported settlement agreement, and that admission of this particular "settlement agreement" would be prejudicial to the Company. *Id.* The Commission overruled the Company's objection.

DIUC presented the prefiled and summary testimony of John F. Guastella, President of Guastella Associates, LLC and Gary C. White, Vice President of Guastella Associates, LLC. *See* Transcript at 134-296 and 119-133. Guastella Associates LLC ("GA") provides management, valuation and rate consulting services to water and wastewater utilities around the country, and has been the contract manager of DIUC (and its predecessors) since July 9, 2008.[1] DIUC also presented the prefiled and summary testimony of The Honorable Maria Walls, Treasurer of Beaufort County, and prefiled testimony of and Eric Johanson, Chief Operator of DIUC. *See* Transcript at 73-111 and 112-118.

The Intervenors presented prefiled and summary testimony of Charles Loy and Lynn M. Lanier, both of whom are principals with GDS Associates, Inc., a utility consulting and

[1] The stock purchase of Haig Point Utility Company, Inc. (now DIUC) by CK Materials LLC on July 9, 2008, from Haig Point, Inc. (formerly International Paper Realty Corporation of South Carolina) was approved by the Commission. The stock of DIUC was transferred from CK Materials, LLC to Daufuskie Island Holding Company, LLC in 2013 when the Commission approved DIUC's financing with SunTrust Bank.

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engineering firm with its principal offices in Marietta, Georgia. *See* Transcript at 347-464.

The Intervenors also presented prefiled and summary testimony of the following DIUC customers: Doug Egly, Tony Simonelli, Paul Vogel, and Harry Jue. *See* Transcript at 305-347. Beach Field did not present any witnesses. ORS presented prefiled and summary testimony of Ivana C. Gearheart, ORS Audit Manager; Willie J. Morgan, Deputy Director of the Water and Wastewater Division of ORS; and Dr. Douglas H. Carlisle, Economist at ORS. *See* Transcript at 466-543. Pursuant to motions by each party, all prefiled testimony was read into the record as if given orally.

On November 25, 2015, DIUC submitted its proposed order approving rates and charges. ORS and the Intervenors jointly submitted a proposed order requesting the Commission approve the Settlement Agreement between ORS and the Intervenors.

On December 8, 2015, the Commission entered its decision, docketed as Order No. 2015-846, accepting the Settlement Agreement and making findings and conclusions implementing the Settlement Agreement's terms as its ruling on DIUC's application. DIUC filed a timely Petition for Reconsideration and/or Rehearing on December 21, 2015. By Order No. 2016-50 dated February 25, 2016, the Commission denied the Petition for Reconsideration and/or Rehearing.

On March 22, 2016, DIUC served its Notice of Appeal of Order No. 2015-846 and Order No. 2016-50 (collectively referred to herein as "Order 2015-846").

The Appeal and Remand for Rehearing

On appeal, DIUC asked the Supreme Court to consider Order 2015-846's adoption of the ORS-Intervenors Settlement Agreement and other evidentiary rulings by the Commission. DIUC also appealed Order 2015-846's ruling upon five adjustments that were included in the Settlement Agreement between ORS and the Intervenors. DIUC asserted that by adopting the adjustments in

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the Settlement Agreement, Order 2015-846 improperly rejected revenue calculations requested by DIUC.

The Supreme Court heard oral argument on the appeal on December 14, 2016, and on July 26, 2017, issued its Opinion. In its Opinion, the Supreme Court ruled Order 2015-846 "contained multiple adjustments which were entirely unsupported by the evidence presented to the Commission." *Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff*, 803 S.E.2d 280, 286 (S.C. 2017). Accordingly, the Court reversed and remanded the matter "for a new hearing as to all issues." *Id.* The issues referred to by the Court are Order 2015-846's adjustments to Property Taxes, Plant In Service, Bad Debts, Management Fees, and Rate Case Expenses.

Although the Supreme Court did not individually analyze two of the five adjustments, the Court did explicitly address three adjustments "in order to provide guidance to the Commission on remand." *Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff*, 803 S.E.2d 280, 286 (S.C. 2017). Those adjustments were to Property Taxes, Plant In Service, and Bad Debts.

Following remand and prior to rehearing by this Commission, DIUC filed Applicant's Proposal for Procedure Following Remand and Expedited Hearing. *See* DMS Entry #272433. In that Proposal, DIUC explained its position that the Supreme Court's Order did not require or authorize any additional discovery for the matters to be addressed on remand. *Id.* DIUC cited the high costs of the original proceeding and appeal as well as the mounting costs of the rate case following the appeal. Intervenors responded by asserting their entitlement to discovery without any limitation. *Id.*

Standing Hearing Officer David Butler issued Orders 2017-59-H and 2017-60-H finding that "since the Commission will hold a new hearing on all ... issues, the Commission's discovery rules are clearly applicable." On October 16, 2017, DIUC filed a Motion to Reconsider Directives

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2017-59-H and 2017-60-H with Affidavit of John F. Guastella explaining to the Commission that a decision on the Application was necessary prior to the conclusion of 2017, because the bonds this Commission ordered so that DIUC could collect its requested rates pending appeal would expire on December 31, 2017, and DIUC is not able to obtain renewals of the bonds. DIUC also immediately submitted its prefiled testimony.

In response to the Motion to Reconsider and DIUC's prompt filing of its prefiled testimony, Standing Hearing Officer Butler issued Order 2017-61-H revising the schedule in this matter to allow for a hearing and decision of this Commission prior to December 31, 2017.

The parties participated in discovery and prefiled testimony of their witnesses. A hearing was convened on December 6, 2017, in the Commission Hearing Room located at 101 Executive Center Drive in Columbia, South Carolina. DIUC was represented by G. Trenholm Walker, Esquire, and Thomas P. Gressette, Jr., Esquire. The POAs were represented by John J. Pringle, Jr., Esquire and John F. Beach, Esquire. ORS was represented by Andrew M. Bateman, Esquire, and Jeff Nelson, Esquire.

DIUC presented the prefiled and summary testimony of John F. Guastella, President of Guastella Associates, LLC and Gary C. White, Vice President of Guastella Associates, LLC. The Intervenors presented prefiled and summary testimony of Charles Loy and Lynn M. Lanier. ORS presented prefiled and summary testimony of Dawn M. Hipp, a Director in the ORS Utility Rates and Services Department; Daniel F. Sullivan, Deputy Director of the ORS Audit Department; and Dr. Douglas H. Carlisle, Economist at ORS. The testimony of ORS witnesses Hipp and Sullivan was limited to certain matters and expressly relied upon the previous testimony of ORS witnesses Ivana C. Gearheart and Willie J. Morgan, as provided in the original hearing.

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Pursuant to motions by each party, all prefiled testimony was read into the record as if given orally. Prior to the December 6, 2017, rehearing, a Certified True Copy of the Transcript of Testimony and Proceedings with 6 Hearing Exhibits of the prior hearing in this matter (Hearing #15-11494, held on October 28, 2015) was filed in the docket. *See* Rehearing Transcript, Rehearing Exhibit 2. During the December 6, 2017, rehearing, the Transcript of Hearing #15-11494 was entered as Hearing Exhibit 2. As such, the Transcript with Exhibits is part of the record for this rehearing proceeding.

The rehearing was recessed in the afternoon on December 6, 2017, reconvened on the morning of December 7, 2017, and then concluded in the afternoon on December 7, 2017. The parties were instructed to provide proposed orders to the Commission on or before 5:00pm on December 15, 2017.

FINDINGS OF FACT WITH CORRESPONDING REVIEW OF EVIDENCE AND CONCLUSIONS OF LAW

The Commission has evaluated the positions of the parties and based upon view of the facts and evidence of record, the Commission has reached the legal and factual conclusions herein set forth.

Authority of the Commission and Standards

The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Code Ann. §58-5-210, *et. seq.* As demonstrated by the evidence supporting the Company's business and legal status contained in the Application filed by DIUC, testimony, and in prior Commission orders in the docket files of the Commission, of which the Commission takes judicial notice, DIUC is a water and sewer utility providing water and sewer service in its assigned service area on Daufuskie

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Island, Beaufort County, South Carolina. DIUC's operations in South Carolina are subject to the jurisdiction of the Commission.

DIUC's Application was filed pursuant to S.C. Code Ann. §§ 58-5-210 and 58-5-240 and 10 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A. In considering the Application, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. Thus, the Commission must give due consideration to the Company's total revenue requirements and review the operating revenues and operating expenses of DIUC to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for DIUC based on the record and any increase must be just and reasonable and free of undue discrimination. DIUC has also asked this Commission to establish revenues based on an authorized ROE which will allow DIUC the opportunity to earn a fair return.

Adoption of a Test Year

A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's operating margin or, in this case, a return on rate base. In order to determine what a utility's expenses and revenues are for purposes of determining the reasonableness of a rate, the Commission selects a "test year" for the measurement of the expenses and revenues. *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826, 828 n.1 (1996). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical,

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the Commission should adjust the test year data. *See Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); *see also Parker v. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984) *citing City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 P.A. Super. 341, 144 A.2d 648 (1958).

In its Application, DIUC utilized a historic test year – the twelve months ending December 31, 2014, with adjustments for 2015 expectations. ORS also used the 2014 historical test year, as did the POAs. *See* Hearing Transcript at 489 and Hearing Transcript at 397.

Based on the information available to the Commission and the fact that all parties agreed to a calendar year 2014 test year, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 2014, is appropriate for the purposes of considering this Application.

Rate of Return on Rate Base

DIUC requested that its rates be determined in accordance with the rate of return on rate base methodology. The determination of rate of return on rate base requires three components: 1) capital structure; 2) cost of debt; and 3) cost of equity (or return on equity). However, by statutory requirement, the Commission must specify an allowable operating margin in all water and wastewater orders. *See* S.C. Code Ann. § 58-5-240(H). Although the Commission must specify an operating margin in its order, this does not mean that the operating margin methodology must be used in determining a fair rate of return. *See Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 64, 478 S.E.2 826, 830 (1996). Operating margin "is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation." *Id.* No party contested the use of the rate of return on rate base methodology and given the size of DIUC's rate base, the Commission finds the rate of return on rate base

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methodology appropriate in this case.

Cost of Equity/Return on Equity

In the initial proceeding, DIUC requested a Return on Equity ("ROE") of 10.5%. ORS recommended an ROE of 9.31% based on a range of 8.91% to 9.71%. The POAs recommended a third ROE in the range of 8.5% to 9.0%, until they abandoned that position to join the ORS-Intervenors Settlement Agreement.

Order 2015-846 adopted the range proposed by ORS. As explained in the Order, ORS used the well-known and commonly-accepted DCF method, CAPM, and CEM for developing its stated ROE range of 8.91% to 9.71%. Those methods, as applied by ORS, are grounded in sound analysis. While the POAs also considered these analyses, the POAs did not actually perform the DCF, CAPM, and CEM studies that ORS reported having performed. ORS agreed to an ROE that falls within the range of Dr. Carlisle and rounds to his recommended ROE of 9.3%.

In its rehearing papers, DIUC again proposed a 10.5% ROE. If we adopt DIUC's ROE then the resulting revenue will exceed the total revenue increase of 108.9% the Applicant originally requested. Therefore, the Commission will continue to apply the 9.3% ROE included in Order 2015-846 so that any increased ordered will be in accord with the previous public notices of the Applicant. *See also*, *supra*, "Deferral of Certain Rate Case Expenses Until Next Rate Proceeding."

Capital Structure and Cost of Debt

With respect to the capital structure, DIUC recommended a pro forma capital structure of 41.2% debt and 58.8% equity. ORS witness Dr. Carlisle testified he had two concerns with the method DIUC used to calculate its capital structure: 1) DIUC included pro-forma long-term debt

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in its long-term debt calculation; and 2) DIUC proposed an inflated equity amount. *See* Hearing Transcript at 472. Dr. Carlisle noted that both result in an increase in the ROE. *Id.*

The pro forma debt is based on the cost of debt DIUC expects, and as Dr. Carlisle noted, the outcome of DIUC's negotiations with banks or lenders is unknown at this time; therefore, DIUC's pro forma debt should not be included. *See* Hearing Transcript at 473. The POAs' witness Lanier also agreed that debt should not include future amounts. *See* Hearing Transcript at 436. Dr. Carlisle further testified that DIUC's capital structure is weighted more heavily with equity, which is more expensive than debt. *See* Hearing Transcript at 473.

In contrast to a projected or pro forma capital structure, ORS recommended a hypothetical capital structure of 46% long-term debt and 54% equity calculated by averaging the known capital structures used by water companies in the United States with publicly traded stock. *Id.* The POAs produced an adjusted capital structure of 57.55% debt and 42.45% equity. *See* Hearing Exhibit 14, based on a reduced rate base.

As to the specific cost of debt rate, DIUC recommended 6.20%. The POAs testified that 6.20% is relatively high in the current interest rate environment, but is probably a reasonable rate given DIUC's precarious financial state. *See* Hearing Transcript at 436. To calculate the 6.20% debt rate, DIUC included anticipated legal and GA fees in the financing fees. In support of the debt amount, Mr. Guastella testified the debt he used is based on his knowledge of prior financing costs applied to the costs expected to be incurred for future refinancing. *See* Hearing Transcript at 243.

ORS, however, did not incorporate the additional fees into the debt rate; instead, ORS recommended that the actual debt rate being paid by DIUC to the current lending institution, 5.29%, be used. See Hearing Transcript at 497. In the Settlement Agreement, the POAs agreed

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to the 5.29% cost of debt recommended by the ORS.

The Commission will continue to apply the 9.3% ROE included in Order 2015-846 so that the new rates can be in accordance with the previous public notices of the Applicant. *See also, supra*, "Deferral of Certain Rate Case Expenses Until Next Rate Proceeding."

Upon consideration of evidence, the Commission adopts the capital structure, 46% long-term debt and 54% equity, and debt rate, 5.29%, recommended by ORS. The Commission declines to use the POAs' capital structure because it is based on adjustments to DIUC's rate base (discussed in the Rate Base section below) that this Commission declines to adopt.

Performance Bond

DIUC is currently providing the maximum amount required for its performance bond in the amount of $350,000 for water and $350,000 for sewer operations. Using the criteria set forth in 10 S.C. Code Ann. Regs. 103-512.3.1 and 103-712.3.1, ORS recommended that DIUC be required to continue the current performance bond amounts. DIUC and the POAs did not challenge the performance bond amounts. Accordingly, and pursuant to S.C. Code Ann. § 58-5-720 and 10 S.C. Code Ann. Regs. 103-512.3 and 103- 712.3, the Commission requires that DIUC maintain its performance bond in the amount of $350,000 for water and $350,000 for sewer operations.

Remand and Instructions from the Supreme Court

Because this matter is currently before the Commission on rehearing, it is prudent to explain how the parties and the Commission have approached the scope of rehearing.

In Opinion No. 27729, *Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff*, 803 S.E.2d 280 (S.C. 2017), the Supreme Court provided instruction as to three of the five adjustments raised by DIUC in its appeal. Therefore, this Commission on remand must alter its previous rulings to

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recognize DIUC's ownership of the water tank, well, pipes, and other utility equipment located on the Elevated Tank Site for inclusion of those facilities in Plant in Service; to allow revenue for all taxes requested by the Application; and to determine an appropriate adjustment for Bad Debts that is supported by the evidence before the Commission.

Of particular note in the Supreme Court's decision are two points regarding the evidence to be considered by the Commission. First, the Supreme Court addressed use of the test year by explaining that "significant known expenses incurring after the test year must be taken into account to give the Commission the most accurate view of the applicant's status." *Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff*, 803 S.E.2d 280, 286 (S.C. 2017). The Court also took the opportunity to explain:

> We now hold that a remand to the Commission for a new hearing necessarily grants the parties the opportunity to present additional evidence. Rate cases are heavily dependent upon factors which are subject to change during the pendency of an appeal, thus it serves no purpose to bind parties to evidence presented at the initial hearing which may no longer be indicative of the current economic realities on remand.

Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff, 803 S.E.2d 280, 286 (S.C. 2017).

Noting the Court's instructions on these points and the mandate to conduct a *de novo* hearing, the Commission scheduled a hearing. DIUC submitted additional prefiled testimony from its previous witnesses, Mr. Guastella and Mr. White. That testimony adopted and relied upon all of DIUC's previous testimony. The POAs provided additional prefiled testimony from Mr. Loy and Mr. Lanier.

ORS submitted additional prefiled testimony which it characterizes as re-affirming its witnesses' previous testimony, except for certain changes made in response to the Supreme Court's ruling. ORS presented Dr. Carlisle again with new witnesses Dawn Hipp and Daniel Sullivan. As Ms. Hipp explained,

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> The purpose of my rehearing testimony is to adopt the direct testimony and exhibits of Willie J. Morgan filed on October 2, 2015, and re-affirm the positions taken by ORS witness Morgan during the October 28, 2015, hearing with the exception of any changes made to comply with the South Carolina Supreme Court Opinion No. 27729, Supreme Court Order issued on November 15, 2017, or resulting from new evidence presented by Daufuskie Island Utility Company, Inc. ("DIUC" or "Company"). The ORS adjustments to comply with the South Carolina Supreme Court Opinion and Order include incorporating the elevated water storage tank and other utility equipment on the "Elevated Tank Site" property in rate base, property tax expenses, bad debt expense and bond premiums.

Rehearing Transcript at 465. Mr. Sullivan also testified that, "In order to comply with the Court's guidance, ORS determined that plant-in-service, property taxes and bad debt expense should be adjusted." Rehearing Transcript at 435.

In accordance with the Supreme Court's direction and based upon the evidence presented by the parties, the Commission makes the following findings of fact, statements of supporting evidence, and conclusions of law. The adjustments raised on appeal (Property Taxes, Plant In Service, Management Fees, Rate Case Expenses, and Bad Debts) will be addressed first. Next, the Commission will address the issues presented at rehearing regarding Rate Base and Depreciation Expense/Accumulated Depreciation. In a separate section the Order will explain why the positions asserted by the POAs through their witnesses Lanier and Loy as to rate base must be rejected.

Utility Property Taxes

The property tax expense at issue in this matter has two components: the recovery of past due taxes in accordance with a settlement agreement between DIUC and Beaufort County Treasurer, and sufficient income to address current and future annual property taxes.

With respect to the ongoing annual level of Utility Property Taxes, the Company requests $192,372 for the combined water and sewer ongoing annual Utility Property Tax, which is calculated on the basis of its December 31, 2015, book value, application of DOR's method of

assessment, and application of Beaufort County's current tax rate, which will be the basis for the 2016 Utility Property taxes. *See* Hearing Transcript at 168-170. The 2012, 2013, 2014, and 2015 taxes are also being paid over an 8 year period as part of the Settlement Agreement and Addendum with Beaufort County.

With regard to DIUC's Utility Property Taxes, ORS witness Mr. Sullivan explained ORS's revised position:

> Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an adjustment to amortization expense for property taxes of $526,848 amortized over eight (8) years for an annual amortization of property taxes of $65,856. This adjustment amount agrees with the Company's adjustment in its rehearing testimony and exhibits.

Sullivan Rehearing Revised Testimony at 9.

The Commission finds that the actual and known and measurable amounts for Utility Property Taxes necessary to cover the eight year installment payments under DIUC's Settlement Agreement and Addendum with Beaufort County Treasurer and its ongoing annual amounts are $65,855 and $192,372, respectively. This is based upon the Application and testimony of witnesses Guastella, White, Walls, Gearheart, Hipp, and Sullivan as well as the instructions of the Supreme Court in Opinion 27729.

The Facilities and Plant In Service

DIUC is permitted to earn a return on the net investment in Utility Plant in Service that it owns. Under South Carolina Law, "plant" includes "[a]ll facilities owned by the utility for the collection, production, purification, storage, transmission, metering, and distribution of potable water." 10 S.C. Code Ann. Regs. 103-702.16

DIUC reasserts in its rehearing testimony that it is entitled to include a total of $8,139,260 in Utility Plant in Service. In the primary case, ORS made a total adjustment to Utility Plant in

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Service in the amount of a reduction of $1,624,696. On remand, ORS has altered its previous position to now include within Utility Plant in Service an additional $925,335, of which $863,379 is for the elevated storage tank and facilities and $61,956 for the well located at that site. ORS witness Dawn Hipp testified that ORS had changed its previous position "to comply with the South Carolina Supreme Court Opinion and Order" resulting in an inclusion of "the elevated water storage tank and other utility equipment on the 'Elevated Tank Site' property in rate base." Hipp Revised Testimony at p. 2. According to ORS witness Sullivan, "ORS now computes an adjustment to gross plant in service of ($699,361) which is shown on Rehearing Audit Exhibit DFS-5." Sullivan Revised Rehearing Testimony at 10. ORS does not provide any additional support for this adjustment of $699,361; instead, ORS relies solely on the previous testimony of Ivana C. Gearheart for the other adjustments to plant-in-service, as included on Audit Exhibit ICG-5. *Id.* at 11.

The Commission has reviewed Ms. Gearheart's testimony from the previous hearing and finds that Ms. Gearheart failed to itemize the specific assets or costs that are the basis of ORS's proposed adjustments to utility plant in service.

As explained by the record from the previous hearing, specifically the testimony of Mr. Guastella, information provided to DIUC by ORS indicates a portion of ORS's total adjustments to utility plant relates to the absence of invoices confirming the original construction costs of particular facilities used and owned by the Company. Mr. Guastella testified, however, that the absence of those invoices does not constitute a lack of documentation of cost for ratemaking when there is no question the facilities are in service, used, and usable. *See* Hearing Transcript at 150-152. Further, Mr. Guastella explained that DIUC provided ORS with itemized assets, by primary plant account, description of original costs as booked, year of installation and in service dates.

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See Hearing Transcript at 150-153. Mr. Guastella also testified at the hearing it was the now defunct Melrose Utility Company that failed to retain many of the invoices now sought by ORS. *Id.*

As pointed out by DIUC in the primary case, in direct testimony ORS witnesses Gearheart made adjustments for land, capital costs and other unspecified assets in various accounts, without providing any evidence to support her adjustments; Ms. Gearhart merely stated that they were "non-allowable," "adjustments from the previous case," or "undocumented." Ms. Gearheart did not provided any other testimony or analyses to support her adjustments. In his rebuttal testimony, Mr. Guastella explained the basis for and justification of the costs included in the $699,361 that was adjusted by ORS. With respect to Ms. Gearheart's claim that costs were "undocumented," Mr. Guastella's testified:

> In fact, itemized costs at specific amounts, by primary plant account and the year in service, are recorded on the DIUC's books, which certainly constitute "documentation". The ORS does not claim that the assets in question do not exist and are not used and useful, nor does it question the reasonableness of the amounts that it clearly observed from DIUC's records. Some missing invoices for a relative small portion of plant, particularly for the Melrose Utility Company that essentially abandoned its system, does not constitute an absence of evidence of the reasonable of the utility plant costs for assets that are providing service. Even the Intervenors' expert, Mr. Loy, understands such circumstances.

Hearing Transcript at 203 to 204.

Mr. Guastella also explained the role of estimating costs.

> These studies are typically performed when there are no supporting cost records of plant. The NARUC USoA requires an 'estimate' of plant values when there is no supporting documentation available. Original cost studies have been an accepted methodology to establish these values.
>
> Although Mr. Loy applies that statement to his opinion with respect to an issue he raised with which I disagree and will discuss later, he is correct that the cost of plant is not properly disallowed because of a lack of documentation, but instead it is proper and consistent with the NARUC USoA to use estimates. In this case, however, it is not necessary to estimate the costs because the costs are known and recorded, and the assets are used and useful in providing service to our customers.

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Hearing Transcript at 204.

The POAs' expert Mr. Loy agreed with DIUC's approach to estimate the plant values, testifying:

> These studies are typically performed when there are no supporting cost records of plant. The NARUC USoA requires an 'estimate' of plant values when there is no supporting documentation available. Original cost studies have been an accepted methodology to establish these values.

Hearing Transcript at 202-203.

With respect to legal and capital costs associated with plant in service, Mr. Guastella testified about specific costs in the following exchanges:

> Q. What adjustments did the ORS propose with respect to legal and consulting fees that are reflected in DIUC's utility plant in service?
>
> A. Ms. Gearheart's testimony and exhibits do not specifically identify the amounts of those adjustments. They are lumped in with her adjustment to utility plant in service. It is our understanding that she proposes to eliminate the legal fees incurred in connection with the condemnation of the Sabry parcel and to eliminate GA consulting fees that were capitalized. I would note that Ms. Gearheart's statement that the legal costs of $29,511 were for condemnation of the water tower is incorrect. DIUC is condemning the land, not the water tank that DIUC already owns.
>
> Q. Why was the condemnation action required?
>
> A. When we learned of the tax sale of the storage tank parcel, our first reaction was to reason with Mr. Sabry. When that was unsuccessful, we filed a legal action to reverse the tax sale. Subsequently, however, our attempt to finance with CoBank and then Wells Fargo fell through, and our need to obtain financing for capital improvements had to be our primary objective. It became evident that the proceeding to reverse the tax sale would be drawn out and result in an unacceptable delay in obtaining a loan. The best course of action was to withdraw the law suit and initiate a condemnation, an action that SunTrust would accept -- and made it a requirement of the loan.
>
> Q. Why should the legal fees be included in the cost of providing service?
>
> A. The tax sale was beyond our control. Upon managing DIUC, we notified Beaufort County of the new address, and we received regular property tax bill from

Beaufort County at that address. For an unknown reason, Beaufort County sent a tax bill for the storage tank parcel of land to the wrong address without our knowledge, as well as notices of a delinquency and a tax sale. It even posted a notice of the tax sale at the wrong property, and our operators never observed any notice at the storage tank site which they visit daily. The legal fees were, therefore, unavoidable and included in the cost of land.

Q. Why should GA's fees related to capital improvements be included in the cost of providing service?

A. GA's management agreement contain a provision under which work performed in connection with capital improvements is not part of the routine day-to-day management of DIUC and, therefore, would be billed at 10% of the first $50,000 of improvements and 8% of capital costs over $50,000. The work involves establishing the improvements that are needed or desirable, establish priorities in terms of their impact on service and available funding cost, solicit and obtain contractors' proposals, select contractors, schedule and coordinate work with DIUC's routine operations, and supervise the construction work.

Q. Did ORS provide any reason for eliminating GA's fees related to capital improvements?

A. Not that I could find.

Q. Why should GA's fees related to capital improvement be included in rate base as part of the cost of the improvements to utility plant is service?

A. GA's capital fees are not only part of an arms-length management agreement, they are necessary and the cost is reasonable. It is obvious that capital improvements cannot be made without the work I describe above. The 10% and mostly 8% of the construction costs are significantly less that the 15% to 20% typically allowed for administration and supervision of construction work."

Hearing Transcript at 204-206. With respect to land values, Mr. Guastella testified:

Q. Has the ORS included anything for the cost of land in utility plant in service?

A. No.

Q. Did the ORS give a reason for eliminating any value for land?

A. Not that I could find.

Q. What have you included as the cost of land for the parcels owned by DIUC?

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> A. We estimated the cost of land at about $0.25 per square foot on the basis of the appraised value of the storage tank parcel that was performed by an independent appraiser we engaged in connection with the condemnation proceeding. The total estimated cost of land, excluding capitalized legal fees, is $109,560.

Hearing Transcript at 206-207.

Mr. Guastella's testimony on these issues was not refuted by any surrebuttal testimony in the primary case. None of ORS's or Intervenors' witnesses in the rehearing testimony have added to Ms. Gearheart's testimony regarding the $699,361 of Utility Plant in Service or addressed Mr, Guastella's rebuttal testimony in the primary case regarding these adjustments.

The Commission agrees with Mr. Guastella that ORS has failed to establish that the alleged lack of invoices constitutes an absence of evidence as to the reasonableness of the cost of a utility's assets that are providing service. Providing ample evidence in support of DIUC's position, Mr. Guastella testified at length as to how DIUC documented the costs by providing documentation from its books and records as to the cost of plant and identification of the plant. *See* Hearing Transcript at 151-152. We find the absence of invoices is not equivalent to a total absence of documentation of the cost of these particular assets that are unquestionably in service.

Mr. Guastella also testified that it is consistent with the NARUC Uniform System of Accounts ("NARUC USoA") to estimate the cost of utility plant in the absence of the original documentation, pointing out that Intervenors' witness, Mr. Loy, also made that observation in his testimony with respect to another issue. When asked on cross-examination about this estimating procedure, Ms. Gearheart testified that she was not aware of that provision in the NARUC USoA. *See* Hearing Transcript at 530.

The Commission finds that based upon the Application and the testimony of witnesses Guastella, White, Gearheart, and Loy, ORS's remaining Plant in Service adjustment of $699,361 for "undocumented expenses" is not supported and is rejected. Accordingly, the complete amount

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of Utility Plant in Service of $3,949,956 for water and $4,139,260 for sewer, or a total of $8,139,260, as requested by the Application, shall be included in the allowance for Utility Plant in Service.

Accumulated Depreciation and Depreciation Expense

DIUC witness Gary White's direct rehearing testimony presented DIUC's rate analysis and supporting schedules in Exhibit GCW-R1, which includes proposed accumulated depreciation in the amount of $429,396 for water and $348,458 for sewer, and depreciation expense of $42,120 for water and $ 53,420 for sewer, net of the annual amortization of CIAC. Mr. White's prefiled rehearing rebuttal testimony addressed ORS witness Sullivan's depreciation amounts for both accumulated depreciation and depreciation expense, pointing out several inconsistencies in the ORS testimony. Mr. White observed that Mr. Sullivan's depreciation schedules are in conflict with DIUC's book figures, there are no known and measurable changes after December 31, 2014, and his roll forwards are not consistent with ORS's position in the 2011 rate case as to plant in service, accumulated depreciation and average service lives. Mr. White also provided a detailed roll forward of depreciation expense and accumulated depreciation in Exhibit GCW-R2. In his surrebuttal testimony, Mr. Sullivan states that he focused on the issues from the Supreme Court decision and given the limited time in this rehearing process, he did not undertake further reviews of DIUC's books and records or ORS's position in the 2011 rate case or the positions reflected in Ms. Gearheart's part of this docket. Sullivan Rehearing Surrebuttal Testimony at 2. So, Mr. Sullivan does not refute Mr. White's depreciation recommendations.

The Commission is accepting the Utility Plant in Service proposed by DIUC and given the testimony of Mr. White and ORS and Intervenors witnesses, also accepts the detailed depreciation analysis provided by Mr. White.

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Management Fees

In its Application, DIUC requested $171,364 for outside management services. As previously stated herein, DIUC has a contract with Guastella Associates LLC ("GA") for management services which was entered into evidence. *See* Hearing Transcript, Hearing Exhibit 9. GA provides management, valuation, and rate consulting services to water and wastewater utilities around the country, and has been the contract manager of DIUC (and its predecessors) since July 9, 2008. The most recent management agreement dated June 18, 2015, states and DIUC witness Guastella confirmed in testimony that DIUC pays GA a management fee of $13,596.85 per month with an annual 3.5% increase. *Id.*

The $171,364 for management fees included in the Application reflect charges under the agreement between GA and DIUC and its owners. That agreement spells out GA's responsibilities and duties, and has provisions for fees and charges, including day-to-day management, finance, capital, and incentive fees. *See* Hearing Transcript, Hearing Exhibit 9.

In accordance with the management agreement, GA's scope of services include:

1. Supervise the day to day operation and maintenance of the Company's system, including supervision of operating employees, vendors and contractors.

2. Maintain books and records, including accounting, financial and operation records, in accordance with the uniform system of accounts prescribed by the PSC and required by the DHEC.

3. Perform all billing, accounting and collecting (other than commencing litigation), including the preparation of customer account records and billing analyses as necessary for rate filing requirements.

4. Prepare financial and operating reports to regulatory agencies, including annual reports to the PSC and monthly operating reports to DHEC. Prepare annual budgets and financial reports to stockholders, as well as periodic (quarterly) financial and operating reports.

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5. Provide information and assistance to outside tax accountants, consultants, engineers and attorneys as required in the normal course of business.

6. Obtain short and long term financing, as available and necessary, for operations and capital improvements and prepare the necessary documentation for lenders.

7. Employ and supervise all employees, vendors, contractors and outside professionals as appropriate to operate, maintain and expand the Company's system, to direct and supervise all plant expansion, capital improvements and replacements, and to carry out all other services required of GA under this Agreement.

8. Implement existing contracts with developers and customers, and negotiate and implement new contracts and applications for service.

9. Revise and maintain general tariff provisions as to rates and terms of service, in compliance with changes approved by the PSC.

10. Be responsible for and carry out all other business incidental to the ordinary course of business management and operation of the Company.

See Hearing Transcript, Hearing Exhibit 9.

ORS proposes to reduce the management fee to $132,211, a level that it claims the Commission previously approved.[2] At the original hearing, the only reason ORS supplied for its reduction was Ms. Gearheart's assertion that the management services provided by GA did not increase from 2011. She testified, "During the review, ORS did not find that the management services provided by Guastella and Associates ("GA") increased and did not find the requested increase justifiable." *See* Hearing Transcript at 493. This assertion, of course, ignores the specific term of the management agreement that requires an annual increase of 3.5% per year and it does not take into account any amount for inflation. *See* Hearing Transcript, Hearing Exhibit 9 at page 5 ("The Management Fee shall increase annually beginning on January 1 of each year this

[2] The Commission did approve a settlement in DIUC's 2011 rate case, but the settlement does not make any reference to the management fee.

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Agreement is in effect by ... 3.5%.").

In response to interrogatories, however, ORS acknowledged that the management services were actually performed by GA, they were necessary to provide service, and that GA was qualified to manage DIUC.

> **Interrogatory #8.** With respect to Ms. Gearheart's proposed adjustment to the GA management fee:
>
> a. Is it ORS's position that GA does not perform the services as set forth in its management agreement with DIUC?
> **RESPONSE: No.**
>
> b. Is it ORS's position that the management services performed by GA are not necessary for the operation and management of DIUC?
> **RESPONSE: No.**
>
> c. Is it ORS's position that GA is not qualified to perform the management services?
> **RESPONSE: No.**

Response to Company's First Set of Interrogatories and Requests for Production to ORS at #8, Hearing Transcript, Hearing Exhibit 10.

Neither ORS nor Intervenors presented any performance analysis or any review of the events and issues faced by DIUC since it was acquired from Haig Point, Inc. in 2008. The Company, on the other hand, provided the Commission with a comprehensive Report on Capital Improvements that includes information regarding the very unusual problems faced by the Company and how those problems were addressed by GA pursuant to its management agreement. *See* Hearing Transcript, Hearing Exhibit 9. In the original hearing, neither ORS nor Intervenors performed any analysis to evaluate whether the GA's management fees are competitive or whether DIUC could have obtained management with the same level of expertise as provided by GA at a lower cost. On the other hand, the record provides the following, as obtained from Mr. Guastella's testimony and exhibits, regarding the work of GA for DIUC:

- The hiring of GA was required in the settlement with an intervenor for the purchase of the stock of HPUC from Haig Point, Inc. to assure that DIUC would have competent management. *See* Hearing Transcript at 213.

- GA directed the transition for the HPUC acquisition as well as the merger of MUC, improving records, billing and operations. *See* Hearing Transcript, Hearing Exhibit 7.

- GA managed the operations despite an immediate 25% annual shortfall of revenues because of MUC's failure to pay its share of the jointly owned wastewater treatment plant. *See* Hearing Transcript, Hearing Exhibit 7.

- GA directed the operation of MUC, when its owners abandoned the utility operations and filed for bankruptcy in order protect the MUC's customers from interruption of water and sewer service, without compensation and despite DIUC's cash shortage. *See* Hearing Transcript at 214.

- GA undertook an extensive effort over about a three year period trying to obtain financing, including about 15 months after the 2012 rate increase, without which it would have been nearly impossible to continue to provide adequate service. GA's expertise in preparing qualified appraisals and rate setting were critical in obtaining approval of financing. *See* Hearing Transcript at 220.

- GA worked with the president of DIUC to use his contracting firm to make temporary repairs to the failed wastewater lagoon liner, when there were insufficient funds to pay for the improvements. *See* Hearing Transcript, Hearing Exhibit 7.

- GA's expertise in appraisals, valuation and condemnations were beneficial in dealing with the condemnation of the land at the storage tank site. *See* Hearing Transcript at 220.

- GA saved DIUC and its customers over $350,000 in property taxes and another $100,000 in present value savings related to the 8 year payment agreement. *See* Hearing Transcript at 213 and Hearing Exhibit 7.

- GA's administration and supervision of the capital improvements saved DIUC and its customers as much as $400,000 in construction costs, as well as significant savings for the Fire Department for the construction of a helipad. *See* Hearing Transcript at 173.

- GA has been complimented by DHEC for its cooperation and efforts to make improvements, and its thorough communications with DHEC that are not typical. A corrective action plan prepared by GA was approved by DHEC within hours of submittal. *See* Hearing Transcript at 215, and Hearing Exhibit 8.

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- GA's stated priority has been to provide adequate service to DIUC's customers. The owners have not been paid a dividend to date, and GA is owed thousands of accrued payments because cash flow is always first used to operate the water and sewer systems. Mr. Guastella noted that past due accounts payable to GA will eventually be paid by the owners not the customers. *See* Hearing Transcript at 141 and 247.

It is apparent that without the management agreement with GA, the Company would have to hire employees or another firm to perform these services, and it is not a given that such options would provide the same qualifications and experience of the GA personnel.

In the original proceeding, the POAs opposed the requested management fees; however, they still have not proposed a specific dollar adjustment for management fees. Mr. Lanier did vaguely state that he "would support any reductions in expenses proposed by the ORS staff," without providing any rationale, standard, or benchmark for any such reduction. *See* Hearing Transcript at 435. Mr. Lanier also accuses the Company of not being operated in the most efficient and economical fashion, claiming it has had such "major lapses" in its operations as sale of the storage tank parcel and increase in property taxes. [3] *See* Hearing Transcript at 421. However, the record does not support a finding of a failure of management with respect to Mr. Lanier's claims. Mr. Guastella's testimony establishes that, as manager of the Company, GA acted in a reasonable, diligent, and timely manner to each of the items mentioned by Mr. Lanier.

Attempting to bolster the position taken by Ms. Gearheart in the previous hearing, ORS witness Hipp for the first time ever raised the issue of checks and balances in the GA management agreement. In her rehearing testimony, Ms. Hipp states: "In addition, it is ORS's position that the management agreement lacks sufficient checks and balances to protect DIUC, its parent company

[3] As discussed below, Ms. Hipp also attempted to blame GA for Beaufort County's lapses regarding its tax notices and postings. These issues were beyond the control of DIUC's management.

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and its ratepayers from decisions made by its vendor, GA." Rehearing Transcript at 477-478. Ms. Hipp then goes on to cite the tax sale of the Elevated Tank Site, which DIUC has repeatedly explained did not occur due to any fault of the Utility or its management. This "checks and balances" argument is not persuasive. The ultimate check of course is the Utility's right to terminate the Management Agreement for cause if GA has failed to perform and to cure any deficiency in performance.

Ms. Hipp also presented Rehearing Exhibit DMH-5, which she asserted "indicates the dollar amount of management fees requested by DIUC are in excess of what other similarly situated investor-owned water and wastewater utilities pay for similar services." Rehearing Transcript at 478. However, if this Commission is to make a comparison between utilities for the basis of a ratemaking decision, the party proposing the comparison must provide enough facts for this Commission to prepare an order that is "sufficiently detailed to enable the reviewing court to determine whether the findings are supported by the evidence and whether the law has been properly applied to those findings." *Heater of Seabrook, Inc. v. Pub. Serv. Commn. of S.C.*, 503 S.E.2d 739, 742 (S.C. 1998) citing *Able Communications, Inc. v. South Carolina PSC*, 290 S.C. 409, 411, 351 S.E.2d 151, 152 (1986).

When pressed by DIUC in discovery about the factual basis for its proposed comparison, ORS responded to the Applicants' Second Set of Interrogatories and Requests for Production by identifying only four incredibly basic points of comparison between DIUC and those utilities ORS asserts are "similarly situated."

> **Interrogatory 9.**
> The witness testifies on page 8 regarding Exhibit DMH-5 that "ORS's analysis as presented in Rehearing Exhibit DMH-5 indicates the dollar amount of management fees requested by DIUC are in excess of what other similarly situated investor-owned water and wastewater utilities pay for similar services." The Exhibit then references Harbor Island Utility and Kiawah Island Utility.

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a. Please define the term "similarly situated" as it is employed by the witness.

ORS Response to 9a:
ORS considered the following characteristics to determine if an investor-owned water and wastewater utility is "similarly situated" to DIUC:

1) Under the jurisdiction of the SC PSC
2) Provided water and wastewater service
3) Provided service in a SC coastal area and/or island
4) Obtained day-to-day maintenance, operations and customer billing services through a management agreement with a third-party entity.

ORS Responses (11-28-17, Docket Entry #273267). ORS provided no further factual testimony or information to support its comparison. ORS made no attempt to analyze the management services that GA has provided versus those provided by the management of Harbor Island Utility ("HIU") or Kiawah Island Utility ("KIU"). Additionally, ORS failed to consider or account for the challenges faced by DIUC or its location on an island accessible only by boat. ORS did not prove that DIUC is substantially similar to HIU and KIU, nor that the services provided under their management agreements are substantially similar to those of GA, nor the challenges and conditions of the three utilities are substantially similar. ORS's conclusory statements and failure to more fully develop this position are fatal to ORS's ability to rely upon it. Additionally, we are also hesitant to rely on these newly asserted grounds when they were for the first time presented to the Applicant on rehearing.

The shortcoming of ORS's attempted comparison is explained by Mr. Guastella's rehearing rebuttal testimony regarding the differences between DIUC and HIU and KIU. First, Mr. Guastella notes that HIU and KIU are not comparable to DIUC "just because they both provide water and wastewater service and are regulated by this Commission." Rehearing Transcript at 16. He then goes on to provide the only substantive factual analysis in the record beyond the obvious

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fact that these entities are regulated utilities with an outside management contract. Mr. Guastella explained:

- HIU only has about one-tenth of the cost of DIUC's utility assets, it has no wells, no water treatment plant, and it is accessible by roadway-bridge.
- KIU has no source wells, no treatment plant, and only one wastewater plant, compared to DIUC's operation of 7 wells outfitted with water treatment and pumping as well as ongoing operation by DIUC of two wastewater treatment plants.
- KIU has about ten times more customers than DIUC over which to spread costs.
- KIU's management fees are not limited to the $365,095 shown in Rehearing Exhibit DMH-5. That $365,095 amount is the amount affiliated corporations allocate to KIU, but day-to-day management of KIU is also provided by its direct, full-time employees. Those employee costs are not included in the amount Ms. Hipp is attempting to compare.

Rehearing Transcript at 97-98.

With respect to the amount of GA's fees in comparison to other utilities, Mr. Guastella also provided a schedule comparing the costs per customer of DIUC with municipal water and sewer utilities in South Carolina. *See* Hearing Transcript, Hearing Exhibit 8. Unlike Ms. Hipp, however, Mr. Guastella thoroughly explained the facts that support the comparison and those that must be included for this Commission to see the importance of the comparison to this matter. Mr. Guastella explained that the data must first be adjusted for taxes and cost of capital in order to compare the cost of operations on an equal basis. Hearing Transcript at 215-216. He further demonstrated that after these adjustments, DIUC's cost per customer is lower than four of the eight utilities, even though the cost per customer should be considerably higher because DIUC has a much lower number of customers. *Id.*

Also, DIUC is on an island accessible only by boat, which makes the cost of even the most basic operations more expensive. *See* Transcript at 216. Even DIUC customers, like Mr. James

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Woodward, acknowledge the impact of access to the island; he testified at the public hearing on September 15, 2015 that:

> Our members and our Haig Point residents already bear substantial costs for the pleasure, granted, of living on a private island. Building costs here, service costs, everything like that, you're just gonna' tack on 20 percent. I just got a quote recently from another company that said, "Here's a quote that I normally do this job for, but on Daufuskie Island we triple it."

Mr. Guastella's testimony and exhibits as to GA's qualifications and performance in managing DIUC and the competitive level of its fees and charges are persuasive. Additionally, no witness for ORS --at the original hearing or at rehearing-- ever identified the services that were performed at the time of the last rate case in 2011 in order to demonstrate a lack of increased management activities since the 2011 rate case. We also acknowledge the unique location of this utility and the impact that has upon the costs of doing business, as explained by Mr. Guastella in his original testimony and during the rehearing.

In the original proceeding ORS also requested that "GA's management fees be limited to the previously Commission-approved amount of $132,211 a year." Hearing Transcript at 493. However, the management fee of $132,211 was not a "Commission-approved" management fee in the previous case, as asserted by ORS. DIUC's last rate case, Docket No. 2011-229-WS, Order No. 2012-515, was settled by agreement of DIUC, ORS and the Intervenors (the same Intervenors in this case). Neither the settlement agreement in that case nor the Commission's approval of it mentions the management fees or the amount of $132,211. Additionally, even if the fees were incorporated into a previous PSC Order, the Commission cannot reach back into a previous case for the lone support of a ruling in a later case. As the Supreme Court has explained, figures from past test year(s) are only probative, if at all, as a starting point for analysis by the Commission. The discussion below explains the rule.

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> Utility argues, however, that the PSC used Utility's recent rate increase as part of its justification for denying the current rate application. To the extent the PSC did so, this was error. Cf. Heater of Seabrook II, 332 S.C. at 29, 503 S.E.2d at 743 (finding it was "inappropriate" for the PSC to rely in a 1997 order on its reasoning in a 1992 order granting an increase to the same company because "this order . . . was based on evidence, and a prior test year, completely different from [the utility's] financial condition at the time of the current application."). The PSC must not use the simple fact of a recent rate increase as a reason to deny a utility's rate application. ***An application for a rate increase must stand or fall on its own merits.*** A recent rate increase provides only a starting point for determining whether a utility's rate base or expenses have increased, such that additional revenues are required.

Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff, 392 S.C. 96, 115, 708 S.E.2d 755, 765 (2011) (emphasis added).

In violation of this principle of law, ORS alleges that there were no increases in the management services provided by GA, but ORS fails to provide any actual analysis of what services were provided at the time of the last rate case or in the present. ORS appears to be confusing the scope of services under the GA Management Agreement, which may not have changed, with the actual services performed, which well may have changed. There is no "starting point" from which ORS's analysis proceeds and therefore the conclusion fails. See *Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 115, 708 S.E.2d 755, 765 (2011). Second, there was no proof that the services Guastella Associates provided were identical to those provided before the last rate case. Finally, Mr. Guastella provided proof of new projects and efforts in a report that described extensive services provided since the last rate case related to the repair, maintenance, and upgrade of the Utility, and its efforts to address new and unique issues that reduced property taxes and made improvements to the water and sewer systems that were praised by DHEC. The DIUC Report on Capital Improvements provides a detailed history of DIUC and its predecessor entities and it highlights the multitude of complex issues inherited by DIUC which

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has been dedicated to solving these problems while maintaining reliable and safe services. *See* Hearing Transcript, Hearing Exhibit 7. The reliable, probative, and substantial evidence demonstrates the work has been performed in order to make improvements essential to provide adequate service to the customers and complying with environmental regulations. The requested management fees should be allowed.

Because DIUC and Guastella Associates are not affiliated, DIUC's expenditures for management fees are presumed reasonable and incurred in good faith. A utility in a ratemaking proceeding is "entitled to a presumption that its expenditures were reasonable and incurred in good faith." *Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 109, 708 S.E.2d 755, 762 (2011). "This presumption does not shift the burden of *persuasion* but shifts the burden of *production* on to the Commission or other contesting party to demonstrate a tenable basis for raising the specter of imprudence." *Id.* (Emphasis added.) DIUC is entitled to this presumption with regard to the GA fees totaling $171,364, as submitted. The record contains nothing to suggest the GA-DIUC agreement is not proper.

Mr. Guastella testified at length about the management agreement and how it was negotiated:

> Our management fee was an arm's length negotiation ... when the CK Materials people were thinking about acquiring the utility from International Paper, they came to me and asked if I would help them with that acquisition. They came to me because International Paper recommended that I help them acquire the utility system. In order for me to do – once I helped them with the acquisition, I was asked whether or not I would then manage the utility, because they really didn't know how to do that. So I entered into an arm's length agreement with what was then the Haig Point Utility, which we had to change the name to Daufuskie Island Utility at the request of the homeowners and the owners of Haig Point Utility, and I worked up a management agreement that includes all the duties and functions that Guastella would perform on a day-to-day basis.

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Hearing Transcript at 170-171. *See also* Rehearing Transcript at 168 (Guastella testifying "I drafted an agreement; they reviewed the agreement. I think there were some back-and-forth on the provisions. And that's how the agreement came about.").

There is nothing in the record to dispute this testimony or to provide even an arguably tenable basis for raising the specter of imprudence. *See Utils. Servs. of S.C. v. S.C. Office of Regulatory Staff*, 392 S.C. 96, 109, 708 S.E.2d 755, 762 (2011). As such, DIUC is entitled to and the Commission will apply the required presumption that the GA fees totaling $171,364 as submitted expenses are reasonable and incurred in good faith.

The Commission finds the requested amount of $171,364 to be reasonable and justified. We find no basis for reducing the Company's proposed management fees. The evidence supporting this finding, that the management of DIUC's operation under the management agreement with Guastella Associates, LLC has been more than adequate, particularly given the challenges faced by the Company, and the management fees in the amount of $171,364 are reasonable and may be recovered, is based upon the Application and testimony of witnesses Guastella, Gearheart, Hipp, and Lanier.

Rate Case Expenses

In accordance with the Supreme Court's instructions, DIUC presented additional evidence in support of its request for rate case expenses. This additional evidence was to supplement the Application and original hearing testimony. *See* Guastella Rehearing Testimony at 7 ("I submit herewith additional evidence related to DIUC's rate case expenses because this evidence adequately reflects the current economic realities facing DIUC. DIUC proposes the Commission incorporate that evidence into its forthcoming order.").

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Mr. Guastella's Rehearing Testimony began by summarizing DIUC's rate case expense evidence, what transpired in the original proceeding, and then what happened as the appeal and remand process continued.

> Rate case expenses are a necessary cost of operating any utility, but it is essential to note that the cost of a rate case has significant financial impact on a small utility like DIUC. As I testified in the primary case, the rate case procedures and discovery required of DIUC in this matter were equal to those for a large utility. The parties participated in exhaustive discovery prior to the hearing. DIUC was required to respond to in excess of 150 discovery requests (exclusive of multiple subparts), review the direct testimonies of nine witnesses, prepare rebuttal testimony and surrebuttal testimony, and prepare for the hearing on the Application. A larger utility with larger revenue and more staffing would be better equipped to absorb the high costs of extensive discovery and other proceedings, but DIUC cannot. As with the other adjustments, DIUC relies upon and incorporates its previous filings and testimony. At the time of the hearing I estimated that the actual rate case expenses to date were about $380,000. However, DIUC's Application included only $191,200 in an effort to mitigate the impact on ratepayers. ORS responded by proposing an even further adjustment that allowed only $97,500 for rate case expenses. As shown in detail through DIUC's evidence, particularly my unrefuted rebuttal testimony, the rate case expenses incurred were actual, unavoidable, and reasonable in the circumstances.

Rehearing Transcript at 70-71.

Mr. Guastella also testified about the increased rate case expenses necessitated by the appeal and subsequent remand proceedings.

> DIUC's appeal of Order 2015-846 added another layer of significant rate case expense, which continues to grow as the current rehearing process proceeds. In order to survive, DIUC had to put appropriate rates in effect pending appeal. This required DIUC to obtain bonds, which first had to be presented to and approved by the Commission. The bonds later had to be renewed and an additional bond obtained. These efforts cost the Utility significant and unavoidable legal and consulting charges in addition to the cost of bonds. At this point, the cost of actual rate case expenses as of September 30, 2017, including projections to complete the rehearing process for legal and consulting services totals $794,201.17, plus the $60,781.56 DIUC incurred for the bonds and an associated letter of credit.

Id. at 76.

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As DIUC suggests, the Supreme Court's decision in this matter encourages the Commission to consider dynamic factors as they are present in a rate proceeding. *See Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff*, 803 S.E.2d 280, 286 (S.C. 2017) (finding the parties should not be bound to evidence presented at the initial hearing, as it "may no longer be indicative of the current economic realities on remand"). Furthermore, because the Applicant's appeal resulted in a reversal and remand of Order 2015-846, the Commission is mindful that it should be particularly attentive to the costs incurred by the Utility related to the rate case and appeal in this matter.

At the original hearing, ORS proposed that rate case expenses should be capped at $97,500 and encouraged the Commission to refuse DIUC's willingness to accept $191,200, even though it was less than DIUC's anticipated $380,000 actual rate case expense. ORS based this position upon the testimony of Ms. Gearheart who proposed the costs be amortized over five years. *See* Hearing Transcript at 494. Order 2015-846 adopted the ORS adjustment which allowed DIUC to recover only $75,000 for rate case expenses in the original proceeding initiated in 2014; the remaining $22,500 proposed by ORS and adopted by Order 2015-846 covered unamortized rate case expenses from the previous 2011 rate case. *See* Hearing Transcript at 495. Given the facts and circumstances in the record, including the extensive work evidenced by DIUC's briefing before this Commission for reconsideration of Order 2015-846 followed by what was ultimately a successful appeal for the Utility, the Commission intends to carefully examine the issue of rate case expenses, many of which could have been avoided but for the provisions of the Settlement Agreement that ORS and POAs endorsed as the basis of Order 2015-846.

Bearing in mind the circumstances of the proposed then adopted Settlement Agreement provided to this Commission by ORS and Intervenors, the Commission is not surprised by DIUC's

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position that on rehearing it should not be required to absorb rate case expenses, as it was willing to do prior to the appeal and remand. *See* Rehearing Transcript at 78. As explained by Mr. Guastella, the appeal has resulted in significant hardship to the Utility. First, "DIUC's only source of obtaining outside financing, SunTrust Bank, has not been willing to refinance the existing loans and provide needed funds for capital improvements until the final rates are approved in a reasonable amount." *Id.* Second, DIUC produced correspondence from SunTrust Vice President Carol Coppola, as Exhibit JFG-4R, demonstrating SunTrust had communicated it will offer no additional credit until this rate case is resolved. *Id.* Given all the testimony in the record (both in conjunction with the original hearing and the rehearing) about the need for capital and system repairs and upgrades, the delays and costs incurred as a result of the appeal have impacted how DIUC is able to operate. Finally, we note that the rate case expense presented totaling $794,210, plus the $60,782 paid by DIUC for appeal bonds, demonstrate, as Mr. Guastella testified, that "DIUC's total rate case expenses has reached a magnitude that is far too disproportionate to its revenues" such that the Utility cannot offer to absorb a portion of the costs as it did in the initial proceeding. Rehearing Transcript at 78.

In support of its rate case expenses DIUC also provided "a schedule of monthly charges incurred by DIUC to prepare and pursue this rate case, plus the cost of the bonds. The schedule includes projected future costs to complete the anticipated rehearing process, assuming there are no further appeals." *See* Guastella Prefiled Rehearing Testimony and Exhibit JFG-3R. In response, "ORS requested DIUC provide detailed invoices and other documentation to support all rate case and bond cost expenses incurred since August 11, 2015, for which the Company is seeking recovery." Hipp Revised Rehearing Testimony at 3. Based upon its review of the invoices, ORS concluded that DIUC should only be allowed to recover $272,382 of the requested

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$794,210 of rate case expenses over a five year amortization period. *Id.* at 7-9. According to Mr. Sullivan's testimony, the $272,382 includes $97,500 as taken from Audit Exhibit ICG-4 provided by ORS witness Ivana Gearheart in the primary case and $177,882 for additional legal costs, bond premiums, and letter of credit fees associated with the appeal. The ORS allowance, then, is $97,500 + $177,882 equaling the total ORS proposed allowance $272,882. This allowance excludes $542,978 of GA billings, based upon ORS's position related to the invoices submitted by DIUC to document the costs.

To arrive at the conclusion that GA's invoices and costs should be ***completely*** disregarded, ORS witness Hipp testified that the GA invoices provided for rate case expense:

> ... contain mathematical errors; do not contain sufficient detail to describe the work performed, the specific dates and hours of work, employee name, and business purpose; contain expenses such as air fare, lodging, and meals for which no detail or receipt was provided; and, do not appear to be paid by DIUC.

Hipp Revised Rehearing Testimony at 6. DIUC responded through Mr. Guastella's rebuttal testimony and addressed each of these points as follows:

- **ORS bullet point "Contain mathematical errors."** That is all it says – "contain mathematical errors." Ms. Hipp does not identify any specific bill(s) that contain a mathematical error.

- **ORS bullet point "Do not contain sufficient detail to describe the work performed, the specific dates and hours worked, employee name, and business purpose."** GA has worked for about 600 different utilities over the 55 years of Mr. Guastella's work in the industry. Throughout that time GA's monthly billing descriptions have been the same; these descriptions have been used for DIUC as well as all other GA clients and no regulatory agency has ever raised any question about the amount of detail included in the invoices. Having provided these invoices to over two dozen regulatory agencies in the hundreds of rate cases in which GA has provided consulting services, I was shocked to see this testimony by Ms. Hipp. GA's invoices provide (and always have) a summary description of the specific work performed, the hours worked by the title of the individual performing the work and the hourly rates and amounts for each, along with the total amount of the bill. These invoices are routinely provided to and accepted by regulatory agencies. For example, in response to discovery in the primary case, copies of GA's billings were provided to ORS, and ORS did not express any concern about their format or

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the information provided. ORS never asserted any complaint or criticism about the content of the invoices. After DIUC provided copies of GA bills to ORS via discovery in this rehearing phase, there was no follow up request for more detail or any concern raised about the need for more detail. Instead, without any notice ORS suddenly declared GA's invoicing insufficient.

There has never been a reason for GA to think the detail of its bills was a problem, not for previous billings to DIUC and not for previous billings for similar rate case work GA provided to Kiawah Island Utility as recently as the 2011 rate application by Kiawah Island Utility. In that case GA's bills were in the exact same format as these invoices for DIUC, and no issue was raised by ORS in that case.

- **ORS bullet point "Contain expenses such as air fare, lodging, and meals for which no detail or receipt was provided."** Once again, GA bills to DIUC are in the same format as those for all other GA clients. The travel expenses are typically detailed by date(s) of travel, whether for air fare, ground transportation, and room and board. I cannot remember a client who has ever demanded our travel invoices. Any time we travel for clients, they know the reason for the travel; in fact, we rarely travel except for hearings or major case events. And again, ORS has never before asked for GA travel documents in addition to invoices for billings to DIUC or to Kiawah Island Utility when GA performed rate consulting services for that utility.

It is also important to note that there are only a couple of GA bills that reflect travel expenses totaling some $5,634, including the $4,532 for the cost of three GA employees to appear in Columbia for the rate hearing. Knowing the date of the hearing and the GA personnel in attendance, it seems logical that ORS professionals could evaluate the reasonableness of those travel expenses as reflected on the invoices billed to DIUC. As previously noted, ORS has required DIUC to supply many, many discovery responses. ORS could have simply requested additional information, rather than waiting to surprise DIUC with this "gotcha" position at rehearing.

- **ORS bullet "Do not appear to be paid by DIUC."** Ever since 2008 when DIUC was acquired from Haig Point, Inc. there have been repeated occurrences that created major cash flow shortages in response to which the owners and GA have made it a priority to use available cash to provide service to the customers, with charges by GA accrued instead of being paid on a current basis. Delayed payments that create accounts payable do not mean that costs are not incurred and/or the costs are not allowable for rate setting purposes.

Rehearing Transcript at 87-89. At the rehearing on December 6, 2017, Mr. Guastella further defended the invoices from GA:

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> But all the costs and all of our charges, we keep track of our hours, and each month we set forth the hours, a summary of the work we did, the position of the employee in Guastella Associates who performed the work, and provide invoices that reflect our actual costs and our actual time to undertake this process. Guastella Associates' time represented by that is over 2000 hours for a rate case.

Rehearing Transcript at 38.

While the Commission understands ORS wishes to document DIUC's rate case expenses, this extreme position that excludes every single GA invoice is troubling. First, it defies the facts which clearly indicate GA provided services including answering a significant number of discovery responses (all of which were verified for DIUC in this case by Mr. Guastella), preparing prefiled testimony by GA employees Guastella and White, travel to the original hearing to provide live testimony by GA employees Guastella and White, prefiled rehearing testimony by GA employees Guastella and White, and rehearing live testimony by GA employees Guastella and White. Second, it is this kind of unsupported overstatement that resulted in the Settlement Agreement rejected by the Supreme Court. Third, the Commission is troubled by DIUC's assertion that ORS for the first time raised these issues just days before the hearing on remand, more three years after the initiation of this rate proceeding.

Ms. Hipp did testify at the rehearing regarding the invoices explaining that if ORS and the Applicant had more time before the hearing then ORS would have allowed the applicant to provide support for these costs. Rehearing Transcript at 520. Although expedited, the schedule for rehearing in this matter allowed for ORS to confer with the Applicant; ORS just chose not to and to provide the Commission with an extreme "take it or leave it" approach which is not a realistic option for the Commission.

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We have reviewed the invoices in question, which were included in Exhibit DMH-1[4] and find them sufficient to document the asserted costs. Furthermore, the testimony of Mr. Guastella addressed the questions raised by Ms. Hipp. Lastly, we cannot deny the Utility recovery for costs that we know were undertaken and completed. Neither can ORS whose witness Dawn Hipp testified:

> Gressette:
> And so, if I understand your surrebuttal testimony, you did state on page four that Guastella Associates performed services in this rate-case proceeding, but ORS is not allowing any recovery.
>
> Hipp:
> I did make that statement, yes.

Rehearing Transcript at 505.

Each of the invoices from GA include time entries identified by the title of the personnel billing the time. A few early invoices refer to: "Principal" and to "Director-Financial/Accounting" while the later invoices identify the billers as "President" and "Vice President–Financial/Accounting." *See* Rehearing Exhibit DMH-1. These titles are sufficient to identify Mr. Guastella and Mr. White, both of whom have testified before this Commission and provided their job descriptions and titles to this Commission. *See* Hearing Transcript at 134 (John Guastella testifying he is President of Guastella Associates) and Hearing Transcript at 119, 123 (Mr. White testifying "I am Vice President and the Director of Accounting with Guastella Associates, LLC a firm that provides utility consulting services primarily for municipal and investor-owned water and wastewater utilities."). Both gentlemen have appeared before this Commission twice in this case to provide expert testimony on behalf of the Applicant. It is improper to deny recovery for

[4] Exhibit DMH-1 is confidential and, as such, the Commission is mindful of the protection it is to be provided.

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work ORS and the Commission itself witnessed, particularly live testimony; it is also clear from that testimony that the witnesses spent significant time working on this case and preparing their testimony.

The Commission is troubled by the fact that disallowance will reward ORS for not previously raising the issue or providing DIUC a fair opportunity to respond. ORS admits it did not allow DIUC to provide additional information about the rejected $542,978 but that ORS usually engages an applicant to allow additional information to be provided in response to ORS questions about verification of charges or invoices. Ms. Hipp explained how DIUC was treated differently which resulted in the exclusion of every single rate case expense invoice from GA:

> In the case of this rehearing, the invoices that we received came to us, and we had such a short time period in order to examine them and make decisions, to meet the deadlines that the Applicant had asked for, that there wasn't that give-and-take. But in a normal rate case, we do have the luxury of having several months to go back and forth with the company, to make sure we thoroughly understand the expenditures for which they're seeking recovery.

Rehearing Transcript at 520. ORS's extreme position has left the Commission in a unique situation.

Based upon the record, the Commission finds that DIUC is entitled to recover $156,656 for rate case work performed by GA. This amount is slightly less than one-third of the total amount of invoices rejected by ORS. The Commission is certain that GA has performed, and its billings evidence, at least that amount of rate case work; as such, it should be recovered by DIUC. That leaves outstanding DIUC's request for repayment GA's other costs for rate case expenses. The Commission is not ruling on or offering any decision on those costs or their documentation at this time. Those requested rate case expenses shall be carried over to the next rate proceeding. The Commission is hopeful that prior to DIUC's next rate proceeding, ORS will engage in its usual and customary "back and forth with the company, to make sure [ORS] thoroughly understand[s]

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the expenditures for which [DIUC is] seeking recovery " *See* Rehearing Transcript at 520.

The Commission also agrees that the Utility's requested three year period of amortizing rate case expenses is appropriate. As Mr. Guastella testified,

> Using a five-year amortization ignores the history of DIUC's rates. DIUC's last rate case was decided in July of 2012, three years before this rate application was submitted in June of 2015. DIUC will certainly need another rate filing within 3 years, or more likely two years, in order to cover the costs associated with utility plant additions that have been delayed because of an inability to obtain financing from SunTrust until this rate case is finally decided.

Rehearing Transcript at 92.

Accordingly, the rate case expenses recoverable in this proceeding include $407,918 in legal and consulting fees plus $60,782 for bond costs for a total of $468,700 and the amortization period will be for three years. This conclusion is based on the Application, the evidence before the Commission, and the testimony of Mr. Guastella, Mr. White, Ms. Hipp, and Mr. Sullivan.

Deferral of Certain Rate Case Expenses Until Next Rate Proceeding

The Rate Application that initiated this proceeding included a revenue requirement of $2,267,721, which is a 108.9% increase over the rates authorized pursuant to the last petition for rate adjustment. *See* Application; *see also* Rehearing Testimony of Guastella at 17. After appeal and remand to the Commission, the Applicant provided testimony that the "current economic realities following remand as the Utility awaits rehearing" indicate "the revenue requirement is $2,423,049, which is a 125.7% increase over the rates authorized pursuant to the last petition for rate adjustment." *Id.* at 16. This revenue requirement is reflected in Exhibit GCW-R1, page 10. To keep the final rates within the Application's original 108.9% increase, DIUC proposes and the Commission agrees it is reasonable to leave outstanding GA's other requested rate case expenses. Because of a minor adjustment to the level of revenues that would be generated under the original

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existing rates, the 108.9% rate increase will generate $2,242,719 in revenues. The Commission is not ruling on or offering any decision on those costs or their documentation at this time.

This conclusion is based on the Application, the evidence before the Commission, and the testimony of Mr. Guastella, Mr. White, Ms. Hipp, and Mr. Sullivan.

Bad Debt Expense

The Supreme Court ruled that "the Commission erred in awarding only $30,852 to cover [DIUC's] bad debt expense because all the evidence in the record establishes DIUC's bad debt expense exceeds $100,000." *Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff*, 803 S.E.2d 280, 288 (S.C. 2017). In response, ORS presented the rehearing testimony of Mr. Sullivan in which he asserts:

> Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an adjustment to bad debt expense for the rehearing proposed increase using the methodology and percentages used to calculate the adjustment on Audit Exhibit ICG-4. ORS applied a bad debt percentage of 9.82% (rounded) to the Company's rehearing proposed increase to calculate an adjustment to bad debt expense of $116,056.

Sullivan Rehearing Testimony at p. 12 (discussing Adjustment 21). In support of its position on the appropriate adjustment for Bad Debts, DIUC submitted its Responses to Intervenors' discovery which included on pages 27 and 28 actual collections information and bad debt information for the time period of 07/01/2016 through 06/30/2017. During this period DIUC collected rates under bond at the applied for 108.9% increase. A review of this evidence demonstrates that the ORS proposed allowance of 9.82% for Bad Debt is appropriate if applied to the rates permitted by this Order. Based upon the testimony of Mr. Sullivan, Mr, White, and Mr, Guastella, the Commision finds applying 9.82% for Bad Debt to this Order's permitted revenue of $2,242,719 results in a Bad Debt allowance of $220,173, which the Commission approves.

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The POAs' Positions on Rate Base

In prefiled testimony prior to the original hearing, the POAs asserted the Commission should totally recalculate DIUC's accumulated depreciation by applying a misguided understanding of how utilization factor ("UF") is relevant to DIUC's system. *See generally* Rehearing Transcript at 286-382. POA witness Mr. Loy proposed that UF is meant to reflect the fact that a water-sewer system either has not been completely built out or is not fully utilized in providing service. *Id.* *See also* Transcript at 207-208 (Guastella discussing why the POAs' positions as to UF are flawed). The POAs also asked the Commission to apply UF as if it were the same thing as identifying "non-used" portions of plant. Even POA expert Loy admitted that the assets in question were used and useful. The UF is applied to the depreciation rate of certain assets and has nothing to do whether the asset is in service. The POAs' assertions about UF are based on a fundamental misunderstanding about UF, not supported by the evidence, and render their recommendation to this Commission to use apply UF to the reduce rate base untenable.

Again endorsing two major adjustments with respect to rate base, at rehearing the POAs asked the Commission to reduce rate base by imputing Contributions in Aid of Construction ("CIAC") based on the presumption that the real estate developer originally intended to contribute all of the Utility Plant in Service to the Haig Point Utility Company. Alternatively, if that proposal is not accepted, the POAs have a fallback position asserting the DIUC's plant (meaning the "facilities owned by the utility for the collection, production, purification, storage, transmission, metering, and distribution of potable water" per 10 S.C. Code Ann. Regs. 103-702.16) are somehow not entirely used and useful to provide service to DIUC's customers.

At the outset we note that accepting either of these positions will result in an extreme reduction to the rate base and revenues of DIUC. This is curious given the POAs' previous

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settlements wherein the POAs agreed to rate base and revenues higher than what they now assert should be ordered. In other words, the Commission is suspect that if these positions were valid, the POAs would not have abandoned them for the significantly higher amounts in the previous two settlements. For comparison, in 2012 the POAs settled their intervention claims for an agreed rate base of $5,000,000 and total annual revenues of $1,058,903. *See* Order 2012-515. Then, more recently in this case in the Settlement Agreement, the POAs abandoned their extreme position agreeing instead to a total rate base of $4,962,927 and total operating revenues of $1,536,375. *See* Hearing Exhibit 3. Now, at rehearing, the POAs propose it is appropriate for the Commission to slash rate base to only $2,304,944 with total operating revenue to be dramatically reduced to $1,293,561, which is less than the Utility has been collecting.[5] *See* Rehearing Transcript at 359 – 362 and Exhibit LML-R3, Schedule C-4. The POAs argue DIUC should be making less money than what the POAs agreed to in the last case, even though the unrefuted testimony indicated DIUC is struggling to survive under its current rates and that the POAs' proposed revenue will not allow DIUC to pay its taxes.

If this Commission were to accept either of the current POA proposals, it would also require this Commission to assume that DIUC will be able to: (1) convince the Department of Revenue to accept this new position that the value of DIUC's utility property is much, much lower; (2) pursue a statutory procedure in hopes of obtaining refunds of previous taxes; and (3) persuade Beaufort County to renegotiate its previous agreement as to repayment of Utility Property Taxes, despite the fact that the Beaufort County Treasurer has testified unequivocally that its agreement

[5] The Intervenors' "CIAC proposal" results in a rate base of $2,304,944 and a revenue requirement of $1,293,561, producing in an overall rate increase of 20.5%. *See* Exhibit LML-R3, Schedule C-4. The Intervenors' "system utilization proposal" for depreciation results in a rate base of $2,283,657 and a revenue requirement of $1,343,077.

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with DIUC will not be renegotiated. The Commission directs the POAs to the following excerpt from the Supreme Court's decision prior to remand in this case:

> Moreover, the Commission's suggestion that DIUC may be able to reduce its tax liability by renegotiating with Beaufort County in the future is purely speculative, especially in light of Walls' testimony indicating the County would not be willing to amend the terms of the settlement agreement.

Daufuskie Island Util. Co., Inc. v. S.C. Off. of Reg. Staff, 803 S.E.2d 280, 287 (S.C. 2017). The POAs will not convince this Commission to rule in direct contradiction to the Supreme Court. In fact, the POAs' request that we do so demonstrates their positions cannot possibly be endorsed by the Commission without setting up what will surely be another expensive but successful appeal by the Applicant.

Accepting either of the POAs' positions would also result in further adjustments to rate case expenses, bad debts, and management fees along with other significant "fallout" reductions to the other revenue components. The POAs' "CIAC proposal" results in a rate base of $2,304,944 and a revenue requirement of $1,293,561, producing in an overall rate increase of 20.5%. *See* Exhibit LML-R3, Schedule C-4. The POAs' alternative "system utilization proposal" for depreciation results in a rate base of $2,283,657 and a revenue requirement of $1,343,077, resulting in an overall rate increase of 25.1%. *See* Exhibit LML R-4, Schedule C-4. In considering both POA proposals, the Commission must account for the impact upon DIUC's ability to pay debt service required for the SunTrust debts totaling $3,250,000 (term loan of $2,750,000 and the existing line of credit loan of $500,000) as well as DIUC's ability to finance additional capital improvements that DIUC witness Guastella has stated since the beginning of this case are required but depend on additional financing. The POAs' proposals ignore the realities of DIUC's *actual* circumstances and they ask this Commission to enter what would be a clearly reversible order.

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Such an order would tee up another costly appeal for DIUC and ORS thereby wasting ratepayer funds, ORS resources, and the Supreme Court's valuable time.

Despite these obvious reasons why the POAs' positions cannot be adopted, for sake of explanation within this Order, a brief analysis of pertinent issues in the POAs' proposals follows.

The POAs' Unsupported Position on CIAC

With respect to the "CIAC adjustment" the POAs claim through their witness Mr. Loy that the real estate developer of Haig Point intended to contribute all of the utility assets to DIUC (formerly Haig Point Utility Company, Inc.). Mr. Loy supports this claim by referring to Schedule A-1 in the HPUC's 2005 application for a rate increase, Exhibit CEL-R1, which shows Utility Plant in Service of $4,339,598 that was not reflected in a trial balance work sheet for the years prior to the 2005 rate case. *See* Rehearing Transcript at 310 and Exhibit CEL-R2.

Mr. Loy next claims that HPUC did not pay for the Utility Plant, referencing Exhibit CEL-R3 that contains documents transferring the various HPUC utility assets from International Paper Realty Corporation ("IP") and subsequently from Haig Point, Inc. ("HP") to HPUC, and also documents transferring Melrose Utility Company ("MUC") utility assets from Southeast Holding Company, Inc. and also Hilton Head Plantation Utilities, Inc. to MUC. *See* Rehearing Transcript at 311. Finally, Mr. Loy refers in his testimony to an IP's 1999 SEC filing, suggesting that IP somehow "gained a significant economic benefit by offsetting taxable income with the write offs of the development investment and subsequent operating losses." Rehearing Transcript at 315. Presumably attempting to make his position more appealing, Mr. Loy also refers in his testimony to the NARUC System of Accounts as well as a treatise and a manual that essentially defines CIAC and states that CIAC is a deduction to rate base for rate setting purposes. *See* Rehearing Transcript at 312-313. These documents nor these excerpts are sufficient foundation for a reliable conclusion.

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Prior to Mr. Loy's testimony at the rehearing, DIUC's counsel objected:

> We're objecting under the rules of Evidence that his testimony does not show that he has a foundation for saying many of the things that he says, that it's hearsay relying on hearsay, and that it is speculative. And under the Rules, the Rules of Evidence apply, and, here, this witness purports to be — or he testifies to conclusions based on documents that he didn't prepare. There's no showing he knew what the makers of those documents intended nor that he was involved with the utility at the time he makes these sweeping conclusions. It's unfounded and speculative. He goes on to do that as to the 10-K that was filed by IP, to make conclusions without any foundation. And he has, basically, legal conclusions or questions that say, "Is there any evidence of this?" That's not a proper question. He should be asked based on his knowledge of certain things. So we object to the entry of this testimony because it is, for the most part, testimony without a factual foundation, that is hearsay relying on hearsay, and it is speculative.

Rehearing Transcript at 288-289. During the hearing Chairman Whitfield overruled DIUC's objection to the admissibility of Mr. Loy's and POA witness Lanier's testimony. *See* generally Rehearing Transcript at 286 – 306. Mr. Loy admitted he had no first-hand knowledge of the preparation of any of the records on which he based his testimony. His conclusions were entirely speculative. Upon reflection, the Commission concludes the testimony, although admitted, is not reliable for many of the reasons articulated by DIUC in the objection quoted above and that the POAs did not carry their burden of proving the conclusions asserted with probative, reliable evidence.

DIUC's witness Mr. Guastella explained the Utility's reasons for disagreeing with the POAs' speculative position that IP and the developer Haig Point, Inc. intended to contribute the utility plant in service to HPUC as CIAC. Mr. Guastella's rebuttal testimony in the primary case addressed this issue and he also commented on it during rehearing. Addressing the issue of imputation of CIAC in the primary case, Mr. Guastella's prefiled testimony included the following:

> Q. When you prepared the last a rate analysis on behalf of DIUC, did you find anything unusual in the relationship between Haig Point, Inc. and HPUC as reflected on the balance sheet as of December 31, 2007 before the acquisition by CK Materials?

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A. No. I found what I have always found for the hundreds of my developer-related utility clients. When a water or sewer utility is created as part of a real estate project, it has no customers and no revenues, because the utility system has not yet been constructed. The developer owner, individual or corporate, funds the construction of the utility system. At some point, sooner or later – it doesn't matter, the assets are transferred from the developer to the utility at their original cost and a liability is reflected on the utility's books in some form of open account, typically as Advances in Aid of Construction or some other named contributed capital account, which represents the developer's equity investment. In sum, there is absolutely no indication that there were customer contributions in aid of construction as defined in the NARUC USoA, and Mr. Loy's proposal to assume contributions is simply unsupported with any substantive analysis.

Hearing Transcript at 211-212.

In his rebuttal testimony in rehearing, Mr. Guastella testified that:

- In the 2004 rate case ORS established that the balance sheets accurately reflected the books and records.
- The approved application for the purchase of HPUC by CK Materials included the balance sheet and cost of utility plant, and the approval was agreed to in a settlement signed by Attorney John F. Beach on behalf of the Haig Point Club and Community Association, Inc.
- The 2011 rate application and related settlement did not include adjustments for additional CIAC.
- The approved 2012 financing with SunTrust Bank relied on the balance sheets.
- ORS's testimony and exhibits in this case do not agree with the Intervenors' position regarding the imputation of CIAC or adjustments to utility plant for non-used and useful assets.
- There is no evidence that the lot purchasers paid for anything but the value of the real estate, and other than minor tap in fees no connection fees to fund utility plant assets.

Rehearing Transcript at 102-103.

At rehearing, Mr. Guastella also referred to HPUC's 2008 federal income tax return that reflects a level of Utility Plant in Service that is consistent with the amounts reflected in DIUC's

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current and past rate applications. *See* Rehearing Exhibit 4. In response to a question from the POAs' counsel, Mr. Guastella succinctly explained the history of the utility's plant.

> BEACH:
> But was there any kind of benefit from a tax standpoint, or other benefit? I think Mr. White said they received nothing in exchange, but could either one of you address that?
>
> GUASTELLA:
> I can address that. Like any other developer, when a developer of real estate, when you go to sell real estate, it's got more value if it has utility facilities. So when they sell the real estate, they're selling at a higher value because they have utility facilities. Because they didn't have any, of course, as I mentioned, they had to construct utility facilities. Therefore, they are making an investment, and they created a separate utility corporation to provide that utility service. At some point, when you transfer the assets to the utility — the utility doesn't pay for those assets — it becomes the developer's investment in the utility, and that's recorded as equity investment. Now, in terms of taxes, when they file federal income taxes, those utility facilities are reflected on the utility's federal income taxes, and the advances in aid of — the contributions-in-aid-of-construction and equity investment is also reflected. The developer could not have written off the cost of the utility facilities and taken a tax benefit on its real estate operations, and also take depreciation on the assets through the utility corporation. So they – even — and the tax returns reflect exactly what the books are reflecting. The assets are the utility's. IRS is allowing them to depreciate the utilities, and the source of capital to fund the utilities is the equity investment by the developer.

Rehearing Transcript at 239-240.

In Mr. Guastella's prefiled rebuttal testimony in the primary case, he also explained that under the tax code, one affiliate cannot expense plant for tax purposes and then transfer it to an affiliate who depreciates the cost that was already expensed.

> Q: Do you agree with Mr. Loy's analysis to support his position that the plant should be treated as contributed?
>
> A: No. Mr. Loy's analysis is a fabrication. Mr. Loy begins his analysis by claiming that Haig Point, Inc. treated the utility plant as inventory and expensed these costs as development costs. He provides no support for that statement, and it's rather far-fetched. Under the tax code, one affiliate cannot expense plant for tax purposes and then transfer it to an affiliate who depreciates the cost that was already expensed.

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Rehearing Transcript at 210-211.

The Commission's past decision's regarding DIUC's rates have never accepted settlements that reflect the imputation of more CIAC in calculating rate base than reflected on DIUC's books. ORS did, in fact, verify in the 2004 rate case that the balance sheets reflected HPUC's books and records. The balance sheet and cost of utility plant contained in the approved application for the acquisition of HPUC by CK Materials from Haig Point, Inc. also confirm that the level of Utility Plant in Service did not include more CIAC than booked, and neither did the 2012 and current rate cases. Mr. Guastella is correct that utilities newly created by related real estate developers are initially paper corporations with no revenues and no ability to finance the cost of utility facilities, and the real estate developers must initially finance the utility facilities. It is also indisputable that the HPUC was not a third party entity that would or could pay for the utility facilities after they would be transferred to it by the parent developer. Instead, the transfer of assets was a balance sheet transaction in which the cost of the utility facilities was recorded on the asset side of the balance sheet and the stockholder's equity investment on the liabilities side of the balance sheet. The transfer of title of these assets to the utility as paid-in capital is equally, if not more, probable than Mr. Loy's speculative assertion the transfer was a CIAC. The POAs failed to prove by the preponderance of the evidence the intent of Haig Point, Inc. to transfer of the assets to the utility as a CIAC.

The POAs do correctly argue that DIUC's rate base for rate setting purposes was not established in the Commission's approval of the SunTrust financing approval or the acquisition by CK Materials or the related settlement between DIUC and the HPCCA for that acquisition. Intervenors also correctly point out that the previous rate cases were settled and the parties are not bound by the rate base determinations in those cases. DIUC does not disagree. It is also true,

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however, that the dramatic imputation of CIAC proposed by the Intervenors has never been accepted by ORS or by this Commission. Considering that POAs' proposed imputation of CIAC in this rehearing results in a rate base of $2,304,944, it is also obvious that if a similar CIAC adjustment had been accepted in the 2012 rate case instead of the $5,000,000 rate base settlement, the $3,250,000 SunTrust financing in 2013 would not have been possible. Moreover, DIUC would not have been able to make the capital improvements, as described in the May 2015 Capital Improvement Report to the Commission, which were necessary to provide adequate service to its customers. *See* Hearing Transcript, Hearing Exhibit 7.

With respect to the 1987 rate case cited by Mr. Loy, the schedules included in Exhibit CEL-R4 are estimates to establish initial rates when the development was just beginning. There are no projections of balance sheets or a capital structure and no indication of when the physical utility facilities would be transferred to HPUC. Further, the POA introduced exhibits showing the title to these assets was not transferred by Haig Point, Inc. to the utility until 2001. It would have been highly improper for the utility to claim a return on these assets in the 1987 rate case because it did not own them. Again, it is clearly speculative to assume that the intent of developers, first IP and then Haig Point, Inc., was to contribute the utility facilities to HPUC. These documents do not indicate the alleged indication as to how the cost of the utility system would be "underwritten" by the lot owners. Moreover, Intervenors assumption that IP's 1999 SEC filing reflects a certain conclusion that IP gained a significant benefit by the write off of the cost of the utility assets is contradicted by HPUC's 2008 income tax returns that reflect depreciation of the cost of the utility assets. Again, as Mr. Guastella explained, the tax code does not permit affiliates to take deductions of the same assets. *See infra*, and Rehearing Transcript at 210-211.

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The POAs' Unsupported Position on Utilization Factor

As in the primary case, Intervenor witness Loy disagrees with DIUC's calculation of accumulated depreciation and depreciation expense because they are based on the application of a utilization factor, claiming such a method is not consistent with the NARUC system of accounts and it is an indication that the utility system is not fully utilized or not "used and useful."

DIUC's witnesses Guastella and White have explained that the utilization factor is not applied to utility plant in terms of it being "used and useful" but, instead, to depreciation rates that in effect apply longer average service lives because the loss in service value is reduced in proportion to the wear and tear on the system in proportion to the connected customers and total customers. Although availability customers require the entire system to make service available at any time they chose to construct a home, their wear and tear is less and the depreciation is less. Accordingly, the utility plant in service is 100% used and useful because it provides service to connected customers and availability service to availability customers.

The distinction ignored by the POAs in misapplying UF as explained in the following exchange during the rehearing.

> BEACH:
> So my question is this: If you take these exact same components – these components right here — and you apply these exact same utilization factors, right here, to determine also the percentage of the plant that should be calculated for the purposes of rate base, wouldn't that be using precisely this same concept but in a way that would be consistent across the board?
>
> GUASTELLA:
> No. You would be using an entirely different concept that's inapplicable to the establishment of depreciation rates. The percentages are applied to the depreciation rates; they're not applied to the plant. If you were going to apply that theory to the plant, you're than assuming incorrectly that the plant is not used and useful. Absolutely incorrect. The methodology for establishing used-and useful is not this methodology. This methodology establishes the appropriate depreciation rates and depreciation expenses. There's a used-and-useful analysis that would establish whether or not the plant is used and useful. It's a completely different analysis. If

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that analysis is made, the finding is that the plant is 100 percent used and useful.... Rehearing Transcript at 275-276.

The Commission finds that the system utilization factor used for calculating depreciation rates cannot be interchanged with an analysis of plant in service, as POAs suggest. Accordingly, the Commission will not adopt the POAs' adjustments based upon UF. Because the POAs' allowance for property taxes is predicated on their proposed adjustments for CIAC and the utilization factor, the POAs' proposed property tax recommendations are also rejected.

The POAs' proposed imputation of CIAC is based on assumed intentions of the developers and HPUC in reliance on speculation, unsupported assumptions, and other unreliable evidence. The POAs fail to acknowledge or address the last 13 years of ORS findings regarding utility plant in service, the 2008 acquisition, the 2013 SunTrust financing, and the 2008 income tax return. Accordingly, Intervenors' proposed imputation of CIAC is rejected. The Commission also finds it cannot accept the POAs' position that the Commission should totally recalculate DIUC's accumulated depreciation by applying a misguided view of how utilization factor ("UF") is relevant to DIUC's system. These findings are based on the testimony of witnesses Guastella, White, Loy, Lanier, Gearheart, Sullivan, and Hipp as well as a review of the docketed documents within the Commission files, as cited.

SUMMARY OF FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. DIUC is a water and sewer utility providing water and sewer service in its assigned service area on Daufuskie Island, Beaufort County, South Carolina. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix just and reasonable rates for service. S.C. Ann. §58-5-210, *et. seq.* DIUC's operations in South Carolina are subject to the jurisdiction of the Commission.

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2. DIUC requested in its Application to increase revenues for combined operations by $1,182,301, consisting of a water revenue increase of $590,454, and a sewer revenue increase of $591,847, based on the rate of return on rate base methodology utilizing an ROE of 10.5% and a 2014 historical test.

3. Under DIUC's proposed rates, the additional total operating revenues would be $1,169,138.

4. The revenue increase requested by DIUC in its Application is a 108.9% increase over the rates then in effect.

5. Based on the Application of DIUC and the evidence presented to the Commission by the Parties, the Commission will use the rate base/rate of return methodology in determining the lawfulness of the Company's rates and in fixing just and reasonable rates.

6. The return on rate base methodology requires three components: capital structure, cost of debt, and cost of equity (or return on equity).

7. The appropriate historical test year period for this proceeding, selected by the Company, is January 1, 2014, through December 31, 2014, adjusted for known and measurable changes.

8. Certain revenue, operating expense, and rate base adjustments proposed by ORS were accepted by the Company as listed in Mr. Guastella's rehearing testimony; these adjustments will be used by the Commission in calculating DIUC's revenue requirement.

9. The original cost of DIUC's utility plant that is used and useful in providing service to its customers is $3,949,956 for water and $4,189,304 for sewer.

10. The accumulated depreciation for plant in service is $429,396 for water and $348,458 for sewer and the annual depreciation expense related to the utility plant in service is

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$42,120 for water and $53,420 for sewer. These include depreciation on contributions.

11. The appropriate level of customer contributions in aid of construction net of amortization is $402,594 for water and $182,359 for sewer.

12. There is no reasonable basis upon which to make a negative acquisition adjustment.

13. DIUC's rate base is $6,970,760.

14. A fair and reasonable rate of return for the Company is 7.46%, as presented by ORS. The resulting operating margin is 15.6%, which is also reasonable.

15. The Company is entitled to total rate case expenses of $468,700, which includes legal fees, bond costs, and $156,656 for GA's rate case billings. The Commission leaves outstanding DIUC's other requested rate case expenses for GA's services. The Commission is not ruling on or offering any decision on those costs or their documentation at this time and the Utility may present them again in their next rate case.

16. Allowed rate case expenses shall be amortized over a period of three years ($468,700 divided by 3 years = $156,233 per year).

17. The actual and known and measurable amount for Utility Property Taxes necessary to cover the eight-year installment payments under DIUC's Settlement Agreement Addendum with Beaufort County Treasurer and its ongoing annual amounts are $65,855 and $192,372, respectively.

18. The management of DIUC's operation under the management agreement with Guastella Associates, LLC has been more than adequate, particularly given the challenges faced by the Company; the requested management fees in the amount of $171,365 are reasonable and may be recovered.

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19. The appropriate operating expenses for DIUC after accounting and pro forma adjustments and adjustments for known and measurable changes total $1,722,469.

20. Applying the fair and reasonable rate of return established herein, a 7.46% rate of return, the total operating revenue requirement for DIUC is $2,242,719.

21. In order for DIUC to have the opportunity to earn its total operating revenue requirement of $2,242,719, DIUC must be allowed additional revenues totaling $1,169,138.

22. The Company's proposed "single-tariff" rate structure for its "Haig Point" and "Melrose" customers was unopposed, is fair and reasonable, and will be used to reflect rates that generate the allowed revenues as determined by the Commission.

23. This Order provides for a capital structure of 46% long-term debt and 54% equity; a cost of debt rate of 5.29%; and an ROE of 9.31%.

24. The overall rate of return of 7.46% produces additional net operating income of $520,250, or $240,513 for water and $279,737 for sewer.

25. This Order's permitted revenues and expenses establish a fair and reasonable operating margin of 15.6%, and a return on rate base of 7.46%.

ORDERING PROVISIONS

As set forth above, this Commission has, in compliance with S.C. Code §58-5-240, determined a fair rate of return for the Company and has documented fully the reasons for its determination in its Findings of Fact which are based exclusively on reliable, probative, and substantial evidence on the whole record.

IS THEREFORE ORDERED THAT:

1. The proposed schedule of rates and charges as filed in the Company's Application is found to be reasonable, as modified herein, and is granted.

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2. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after the date of this Order. The schedule is deemed filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240.

3. The Company shall maintain its books and records in accordance with the NARUC Uniform System of Accounts as adopted by this Commission.

4. The Company shall notify each customer in each class of the customers' increase in rates with the first bill that includes the new increase in rates made subject to this Order.

5. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

_____

Swain E. Whitfield, Chairman

ATTEST:

_____

Comer H. "Randy" Randall, Vice Chairman

Docket No. 2014-346-WS

Daufuskie Island Utility Company, Inc.

Statement of Rates and Charges

			Haig Pt. Present Rates	Melrose Present Rates	DIUC Single Tariff Proposed Rates
I.	**Residential Rates**				
	A. Water:				
	1) Base Quarterly Charge		$62.09	$80.72	$154.16
	2) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4.42
		Over 22,500 gallons	$2.76	$2.44	$4.42
	B. Sewer:				
	1) Base Quarterly Charge		$110.38	$80.72	$223.87
	2) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.38
		Over 22,500 gallons	$1.32	$1.95	$2.38
	C. Irrigation:				
	1) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4.86
		18,001 to 60,000 gallons	$3.09	$1.66	$5.74
		Over 60,000 gallons	$3.50	$1.66	$6.62
II.	**Commercial Rates**				
	A. Water:				
	1) Base Quarterly Charge		$86.93	$136.60	$215.82
	2) Consumption Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$2.76	$0.00	$4.42
		Over 22,500 gallons	$2.76	$1.95	$4.42
	B. Sewer:				
	1) Base Quarterly Charge		$178.21	$136.60	$313.42
	2) Volumetric Charge (per 1,000 gallons)	0 to 22,500 gallons per quarter	$1.32	$0.00	$2.38
		Over 22,500 gallons	$1.32	$1.95	$2.38
	C. Irrigation:				
	1) Consumption Charge (per 1,000 gallons)	0 to 18,000 gallons per quarter	$2.76	$1.66	$4.86
		18,001 to 60,000 gallons	$3.09	$1.66	$5.74
		Over 60,000 gallons	$3.50	$1.66	$6.62
III.	**Availability Charge**				
	A. Water:				
	1) Base Quarterly Charge		$31.04	$76.36	$110.99
	B. Sewer:				
	1) Base Quarterly Charge		$55.19	$85.08	$144.40

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Daufuskie Island Utility Company, Inc.
Water and Wastewater Systems
Combined Operating Statement

	Company Pro Forma Proposed Rates	PSC Order (a) Adjustments	Pro Forma Proposed Rates
Operating Revenue:			
Residential	$710,786	($18,579)	$692,207
Commercial	287,589	671	288,260
Irrigation	213,238	(11,711)	201,527
Availability Billing	992,880	3,652	996,532
Misc. Other Revenue	63,229	964	64,193
Interdepartmental Sales	0	0	0
Billing Adjustments	0	0	0
Total Revenues	2,267,722	(25,003)	2,242,719
Operating Expense:			
Wages	164,752	11,838	176,590
Benefits	10,686	(4,486)	6,200
Director's Fees	16,500	0	16,500
Sludge Disposal	0	0	0
Power	166,718	(36,537)	130,181
Chemicals	9,510	(490)	9,020
Supplies & Maintenance	28,543	(1,427)	27,116
Outside Services-Mgmt	171,364	1	171,365
Outside Services-Engineering	8,013	2,124	10,137
Outside Services-Accounting	2,762	(1)	2,761
Outside Services-Legal	23,178	0	23,178
Outside Services-Testing	92,289	(1)	92,288
Outside Services-Other	38,622	(1)	38,621
Other Operating Expenses	0	0	0
Transportation	2,756	(306)	2,450
Bad Debt	30,852	189,321	220,173
Insurance	48,322	(9,411)	38,911
Regulatory Commission Expense	15,636	0	15,636
Other A&G Expenses	36,436	(0)	36,436
Accepted ORS Adjustment	0	(46,033)	(46,033)
Total O&M Expense	866,939	104,592	971,531
Depreciation	95,266	$273	95,539
Amortization	206,076	$16,013	222,089
Revenue Taxes	14,320	$4,889	19,209
Property Taxes	192,301	$1	192,302
Payroll Taxes	13,732	($520)	13,212
State and Federal Income Taxes	260,495	($51,907)	208,588
Total Operating Expenses	1,649,129	73,340	1,722,469
Net Operating Income	$618,593	($98,343)	$520,250
Rate Base	$7,085,475	($114,715)	$6,970,760
Rate of Return	8.73%		7.46%
Revenue Increase	108 9%		108.9%
Interest Expense	$180,680	($11,291)	$169,389
Operating Margin	19.3%		15.6%

Note (a):
1) Restored Water Tank, and other "Non-Documented" plant costs.
2) Restored correct level of property tax expense and amortization of deferred taxes
3) Restore bad debt expense to test year levels and adjusted for revenue increase.
4) Restore Mgmt Fees to "As Filed" Expense
5) Limit Rate Case Costs allowance so Revenue increase does not exceed 108 9%

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